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Politics this week

Mar 20th 2003
From The Economist print edition

The war begins

EPA

The American-led **war against Iraq** began with missile attacks on the Iraqi leadership in Baghdad. This followed the expiry of an American ultimatum giving Saddam Hussein and his sons 48 hours to leave the country. The deadline was imposed by President George Bush, and the prime ministers of Britain and Spain, after diplomatic efforts to force Saddam to disarm and a second United Nations resolution authorising war appeared doomed.

See article: The war begins

In a speech announcing the **start of war**, Mr Bush said the war's aim was “to disarm Iraq, to free its people and to defend the world from grave danger”. He claimed that more than 35 countries were giving America “crucial support”.

See article: The strengths and weaknesses of George Bush's position

The UN withdrew its **weapons inspectors** from Iraq. Dominique de Villepin, France's foreign minister, rejected the claim of America and Britain that his country's threatened veto had brought diplomacy to an end. He said that the Americans were looking for “scapegoats”. And he predicted that the war would provoke increased terrorism.

Turkey's government prepared a motion for a reluctant parliament to allow American planes to use Turkish airspace to attack Iraq. Parliament recently barred American troops from using the country as a launch-pad for a second front against Iraq; America withdrew a $6 billion aid package. Turkey's plans to send forces into northern Iraq met a hostile reaction from Kurds in the region.

See article: Turkey, Iraqi Kurds and Iran

Tony Blair, **Britain's** prime minister, suffered the resignation of three ministers in protest at his decision to go to war without a second UN resolution. He won the backing of the House of Commons for military action although 139 Labour MPs voted against the government in support of an anti-war motion.

See article: Blair, war and the House of Commons

Nature not oil

George Bush's plan to boost America's independent energy supplies suffered a big blow. The Senate voted against a proposal to allow drilling for oil in **Alaska's** Arctic National Wildlife Reserve.

A UN survey found that **Colombia's** output of coca (from which cocaine is made) has fallen sharply, thanks to a huge American-backed programme of aerial spraying with herbicide. The UN says that in December 2002, land under coca had fallen by 30% in 12 months. This was double the fall reported by the United States in a separate survey released last month.

Politicians in **Brazil** complained that their country risked going the way of Colombia after a judge in normally tranquil upstate São Paulo was murdered by unknown gunmen. The judge was responsible for a prison to which the country's top drug-trafficker was transferred last month.

Cuba's communist government arrested more than 20 dissidents and restricted the movements of American diplomats. The arrests came after James Cason, the top American diplomat on the island, had invited dissidents to meetings at his home.

See article: Cuba and the United States

Freeing Germany's economy

Germany's chancellor, Gerhard Schröder, unveiled a package of reforms that included proposals to cut unemployment benefit, loosen job protection, squeeze non-wage costs and help small companies. He also promised to reform pensions and health care. The trade unions shouted foul. Too timid, said many on the right.

See article: Dreaming of an economic revival

After the assassination of **Serbia's** prime minister, Zoran Djindjic, hundreds of people suspected of links to organised crime were rounded up for questioning, though no one has been charged with the murder. A colleague of Djindjic, Zoran Zivkovic, was nominated to lead the government in his stead.

See article: Tough work, cleaning up Serbia

Finland's mainly rural Centre Party, led by Anneli Jaatteenmaki, won most seats in a general election, just edging out the Social Democrats, led by the current prime minister, Paavo Lipponen. If Ms Jaatteenmaki, a 48-year-old lawyer, manages to form a coalition government, she would be Finland's first woman prime minister.

See article: A new Finnish coalition government beckons

The biggest corruption trial in **French** history opened in Paris, with 37 defendants accused of milking Elf Aquitaine, a former state-owned oil company, of more than $200m during the 1980s and early 1990s.

In a referendum in **Liechtenstein** (population 33,000), the people voted to give their reigning prince, Hans-Adam II, more power, including the right to dismiss any government he deems incompetent. This, say some egalitarians, could lead to the principality's expulsion from the Council of Europe, which requires its members to be democracies.

See article: Liechtenstein votes for autocracy

Judging the past

The UN and the Cambodian government agreed on arrangements for Khmer Rouge leaders to be tried for crimes when they ruled **Cambodia** in 1975-79.

See article: Cambodia and the Khmers Rouges

Zhu Rongji stepped down as prime minister of **China** after leading the country through a number of economic reforms and was succeeded by his deputy, Wen Jiabao, a geologist by training.

See article: China's new prime minister

Paulo Sergio Pinheiro, a UN human-rights envoy, said political change was slowly occurring in **Myanmar** and that “The policy option should be engagement, not isolation.” The pro-democracy opposition said that Mr Pinheiro had no mandate to comment on political matters.

See article: No reform in Myanmar

Italian and American bases in eastern **Afghanistan**, close to the Pakistan border, came under rocket and machinegun attack from suspected Taliban and al-Qaeda forces. On March 20th, coalition troops launched an offensive near Kandahar.

Scientists in **Hong Kong** were reported to have identified the virus responsible for a form of pneumonia said by the World Health Organisation to be a “worldwide health threat”. Of the 257 people falling ill from the virus, 150 are in Hong Kong. Fourteen people have died.

See article: A mysterious new disease

CAR trouble

A coup in the **Central African Republic** toppled president Ange-Félix Patassé, who had survived seven previous attempts. The African Union condemned it.

See article: A coup in Central Africa

Tony Yengeni, a former chief whip for **South Africa's** ruling party, the African National Congress, was sentenced to four years in jail for fraud.

See article: Fighting South African corruption

A general strike in **Zimbabwe**, in protest at Robert Mugabe's insistence that he is still president, turned to violence. Over 60 people were arrested. The Commonwealth extended Zimbabwe's suspension.

In **Nigeria**, troops clashed with ethnic militiamen near the oil town of Warri; at least seven people died.

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Business this week

Mar 20th 2003
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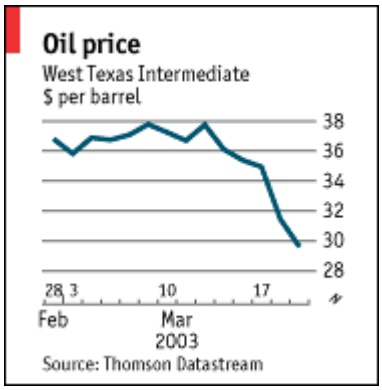
Effects of the war



The price of oil fell sharply, stockmarkets perked up after weeks of gloom and the dollar rose to a two-month high against the euro as the **war against Iraq** started.

See article: A frantic search for investment returns

Crumbling Allianz

Allianz added to the gloom of Europe's insurers by announcing losses of *euro*1.2 billion ($1.1 billion) in 2002. The German giant's woes were compounded by further losses at Dresdner Bank. Allianz tried to revive its overpriced and underperforming acquisition by removing Bernd Fahrholz from Dresdner's top spot.

See article: Dresdner's boss departs

Assicurazioni Generali, Europe's fourth largest insurer, lost *euro*754m ($711m) in 2002 after the Italian company was forced to write off *euro*4 billion from the value of investments.

Four bankers, formerly with **Merrill Lynch**, were charged for their part in a fraud that allowed Enron to disguise the true state of its finances. America's Securities and Exchange Commission approved an $80m settlement with the investment bank over the fraud at the fallen energy trader. Merrill Lynch neither admitted nor denied culpability.

The Securities and Exchange Commission charged **HealthSouth**, a big healthcare company, and its boss, Richard Scrushy, with fraudulently inflating earnings by at least $1.4 billion since 1999. The charges are the first brought against executives under new legislation that penalises bosses who falsely certify the accuracy of company accounts.

See article: Corporate malfeasance

War in the air

Airlines may be early war casualties. **United Airlines** admitted that it might go bust: international bookings fell 40% last week. **Continental** said that it would cut 1,200 jobs by the end of the year.

See article: Flying the unfriendly skies

Ryanair, an Irish no-frills carrier, intends to renegotiate the *euro*23.9m ($25.3m) it agreed to pay for a rival, Buzz, after uncovering the extent of its losses. It pushed on plans to sack most of Buzz's staff and close some routes.

EasyJet, a British competitor to Ryanair, pulled out of a deal to buy **Deutsche BA**, a loss-making subsidiary of British Airways. It blamed Germany's onerous labour laws and Lufthansa, which has cut prices on short-haul routes to win back business.

Green light?

Britain's competition authorities will examine four rival bidders for Safeway, the country's fourth largest supermarket chain. The four include Asda, owned by Wal-Mart, and—unexpectedly—**Wm Morrison**. This clears the way for an offer from Philip Green, a controversial corporate raider, but other bidders may emerge.

Royal Dutch/Shell followed BP's lead and wound down its operations in the North Sea. The oil giant said that it would boost profitability by cutting staff by 20% on ageing rigs. Oil companies are shifting resources to exploit more attractive returns from the world's newer oil-production areas.

John Hargreaves, founder, chairman and majority shareholder of **Matalan**, stripped the British budget-clothing company of its second chief executive in under two years. A disagreement over style not strategy, said the company. Investors' patience wore thin; Matalan's shares tumbled.

Marconi, once on the brink of bankruptcy, unveiled an unusual incentive scheme. The managers who have engineered its tentative recovery will get a 12% stake in the British telecoms firm if the good work continues. Laudably, the deal includes a provision that the current chief executive will not receive the customary handsome pay-off if he fails.

Headline news

Rumours of **Procter & Gamble's** interest in **Wella** proved well-founded. The acquisition by the American consumer-goods giant seemed cut and dried after it agreed to pay *euro*6.5 billion ($6.9 billion) for the German hair-care firm.

See article: P&G's latest acquisition

Bayer won the first court case brought against Baycol, an anti-cholesterol drug that was linked to over 100 deaths worldwide. A Texan court ruled against a claim for $560m of damages. The German firm has paid out $150m in out-of-court settlements to some 500 people so far. Meanwhile, **Smith & Nephew**, a British maker of health-care products, agreed to buy **Centerpulse**, a Swiss rival, for £1.5 billion ($2.3 billion).

America's Department of Justice is to pursue a lawsuit against **big tobacco** companies for $289 billion, alleging a 50-year conspiracy against smokers. The Bush administration was expected to be lenient to the tobacco giants and drop the lawsuit.

Kirch Media, forced into bankruptcy last April, finally found a buyer for ProSeibenSat.1, its German television assets. Haim Saban, an American children's-TV mogul, paid a sum rumoured at around *euro*2 billion ($2.1 billion).

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War in Iraq

What kind of victory?

Mar 20th 2003
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The challenges are daunting, both during the fighting and beyond

Get article background

AP

SO NOW it is war. And, despite all the hesitations and divisions, such is the imbalance of military power that victory is certain. That is to say, America and Britain will certainly be able to occupy Iraq, destroy its army, dismantle its stocks of mass-killing weapons and remove the regime of Saddam Hussein. But there is a world of difference between victory and "victory". A true victory in this war will depend on many things going right, both in the course of the fighting and during what is likely to be a lengthy aftermath.

One imperative during the fighting must be to keep the killing to a minimum. This means more than preventing Saddam Hussein from using chemical and biological weapons. The Americans and British must also be careful to keep their own killing to a minimum. That is a moral requirement of all wars, but in this one it is also a political imperative. This, after all, is a war of choice, not of self-defence, and it is being waged, in part, in order to "liberate" Iraqis from an odious dictator. Afterwards, the gratitude of the liberated will depend very much on how many of their countrymen—not just civilians, but the regime's wretched conscripts as well—perish in the fighting. America's military superpowerdom is often equated with its ability to crush resistance with massive firepower. This time it should use its dazzling technology not just to sweep all before it but to win as cleanly as possible. A bloodless victory is a mirage. But at its best, if Iraq's regime is as loathed as many say, this war might look less like a collision between nations and more like a coup carried out by foreign forces.

Keep outsiders away from the war...

Unfortunately, history is littered with examples of soldiers fighting bravely in defence of odious leaders. After more than 30 years of secretive dictatorship, nobody can know how many Iraqi soldiers will be willing to make a stand. If the war is longer than envisaged, a second imperative for the Americans will be to prevent it from sucking in outsiders. Should Iraq fire missiles at Israel, as in 1991, the Americans need to discourage Israel from striking back pointlessly against a dying regime. They should also use all their influence to prevent a clash between Turkey and the Kurds of northern Iraq.

Even a clean victory is liable to be followed by a messy peace, with disruptive consequences well beyond Iraq itself. The oft-heard claim that attacking Iraq will recruit hordes of new suicide bombers for Osama bin Laden is too simple: there is nothing so automatic about political emotions. But Israel's crushing of Arab armies in 1948 and 1967 shaped the thinking of whole generations of Arabs; and an American conquest of Baghdad, even if it were welcomed by Iraq's own citizens, has the potential to inflict an equivalent trauma. To guard against victory in the war against Mr Hussein turning into defeat in the war against terrorism, America will therefore need to take prompt remedial action the moment the war ends.

In 1991, George Bush senior drew the sting of his victory in Kuwait by pushing Israel into a peace conference in Madrid. The younger Bush also promises an end to Israel's occupation of the West Bank and Gaza. For Tony Blair in particular, promising "even-handedness" in Palestine has been a useful counter to domestic critics of his Iraq policy. But Palestine is no panacea. The conflict there has had next to nothing to do with the rise of Saddam and his wars with his neighbours. And although the Americans, the European Union, the Russians and the United Nations have drafted a "road map" to an independent

Palestine, following the map will be arduous. It depends among other things on the Palestinians being willing to end their *intifada* and the Israelis being willing to unclench the iron fist they have clamped on the occupied territories in order to stop the suicide bombers. Even in the event of everything going to plan, the road map does not envisage an independent Palestine until the end of this year. But its borders, and probably much else, will be “provisional” until 2005.

In the meantime, America's standing in the region will depend at least as much on how it conducts its own military occupation—the occupation not of a sliver of Palestine with 4m Arabs but of an Arab country of nearly 24m. America stresses its good intentions: Iraq's oil is to be put in trust for the benefit of Iraq's people; as in Afghanistan, there is to be representative government. But occupation is occupation. Keeping Iraq whole while making it free will be harder than it sounds.

Mr Bush promises to respect Iraq's territorial integrity. This sounds very fine. Who are the western powers to invade and carve up independent Arab countries? Yet it raises the question of whether the people of Iraq have a common identity.

One in five are Kurds, some of whom dream of independence. Because Kurdish nationalism scares those neighbours, especially the Turks, who have Kurdish minorities of their own, Iraq's Kurds say today that the limit of their ambition is autonomy in a federal Iraq. But what will they say tomorrow, when America, that famous believer in self-determination, is running the show? In the dozen years since the Gulf war, the Kurds of northern Iraq have enjoyed both autonomy and a measure of democracy in their northern haven. For “victory” to mean victory, the Americans will have somehow to bring the Kurds back under the ambit of Baghdad without making them feel any less free than they feel now.

...and some of them from the peace as well

Even an Iraq that remains whole will not necessarily be stable. A desire for revenge against an oppressive regime will deepen the country's already profound sectarian divisions. Building democracy on such foundations will take delicacy and patience. Some of Iraq's neighbours see the attempt as a threat to the survival of their own autocratic regimes, and may conclude that their interest lies in thwarting it. The spoilers could include nominal friends, such as Saudi Arabia, as well as regimes such as those in Iran and Syria that are hostile to America. The Saudis will promote their Wahabi brand of Islamic activism among Iraq's Sunnis; Iran will counter both in Kurdistan and among the Shias of Baghdad and the south. In the 1970s and 1980s, the meddling of outsiders stirred poison into the sectarian wounds of tiny Lebanon, bringing chaos and then civil war. Without care, even under American occupation, something similar could occur on a bigger scale in Iraq.

Simply to list the responsibilities that will face the Americans after this war is to be daunted by their complexity. Does this imply that going to war was a mistake?

No. When people come to assess the war's human and economic cost, they need to remember how matters stood before it began. Will Muslim terrorists strike the West? They are doing so already. Will Iraq fly apart? It was not united beforehand: the Kurdish north had long ago split away, kept safe only by the American and British aircraft policing the northern no-fly zone. Will it be awash with refugees? Millions have already fled Saddam's regime; and now at least sanctions can end and they might return. Will it look unstable? Such stability as existed in Iraq was maintained only by a system of lethal repression. This was order of the kind that is imposed by the secret policeman's midnight knock, the unexplained disappearance, the random execution of citizens who happen to say the wrong thing or have the misfortune to fall under suspicion for reasons they might never be told. By some accounts, Saddam's regime has killed more than 100,000 of its own citizens, excluding the many more killed in the course of wars he initiated. A very great deal would have to go wrong to make the lot of ordinary Iraqis after this war worse than it was before.

And weapons of mass destruction? It is only honest as the bombs fall to remember that the principal reason for this war is not to liberate Iraq from its dictator—that will be a splendid bonus—but to remove the mortal threat such a man could have posed outside his borders with chemical, biological and nuclear weapons. The war will surely remove that threat. But to complete the victory, America needs to ensure that the lesson of what happened to Iraq is learned by other would-be proliferators. That is the subject of the next article.

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Weapons of mass destruction

After Iraq

Mar 20th 2003
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It will be worth trying more peaceable ways to curb nasty weapons

MIGHT the first war fought to disarm an unsavoury regime of its weapons of mass destruction be successfully turned into the last? The moment of an American-led military assault to strip Iraq of all nuclear, chemical or biological weapons, and the means to deliver them, is as good a moment as any to ponder whether there might in future be less costly ways of checking the spread of such weapons, not least in the Middle East, a region dangerously well stocked with them.

Force has its risks. By using it against Saddam Hussein without formal UN blessing, charge the critics, George Bush will make future efforts to counter proliferation harder still. His strong-arming of Iraq and his hostile “axis of evil” rhetoric may drive those with nuclear ambitions—especially, North Korea and Iran—to speed their bomb-building.

In reality, Mr Bush has done no more than point up how the Security Council has undermined its own authority over the years by failing to oblige Saddam to disarm as he should have done. And, whatever they may now do, neither Iran nor North Korea owes its recent big nuclear strides to anger at Mr Bush, but to technology and know-how acquired well before he came to office. A likelier spur to their weapons building was learning just how close Iraq had come to a bomb of its own before the first Gulf war, without anyone knowing—and then realising that, even if they got caught, the Security Council lacked the courage of its own resolutions.

Few would argue that military force is anything but the least bad of the options now left for dealing with Iraq (the worse one being to leave Mr Hussein armed and defiant). Yet its effect could be more beneficial than gloomsters expect. Stemming the spread of weapons of mass destruction depends on driving up costs to would-be proliferators, and driving down benefits that acquiring such weapons is expected to bring. By taking on Iraq, America is demonstrating to other nuclear wannabes how high the price of rule-breaking can be. Before that demonstration effect wears off, the Americans should take active steps to promote an idea, rehearsed in the past but never acted on: the exploration of a weapons-of-mass-destruction-free zone in the region.

Mutually assuring diplomacy

Pie in the sky? Many other ambitious diplomatic efforts would have to fall into place first, not least the prospect of a lasting peace between Israel and the Palestinians. And even the less adventurous first steps—confidence-building measures to reduce the level of tension—would be far from easy. Yet the disarming of Iraq will change the balance of power in a way that could help others to disarm.

For years ringed by populous enemies bent on its destruction, and outnumbered in every sort of weapon but one—the nuclear sort—Israel has seen that nuclear edge steadily eroded by the spread of chemical-tipped missiles among its neighbours. In the 1990s, better relations with Jordan and Egypt, along with the collapse of the Soviet Union, chief armourer to the hardliners, started some Israelis wondering whether their security was best assured by unilateral action or regional arms control. Bombing Iraq's nuclear reactor back in 1981, they noted, had delayed Saddam's bomb-building, not ended it—and a strike now against Iran's uranium-enrichment facilities might be no more decisive. Meanwhile, the disarming of Iraq removes one more of Israel's dangerously implacable foes.

Any security regime worth pursuing, even an initially modest one, would have to rope in hostile Libya and

Iran too. Both have nuclear ambitions, though Iran is the closer to realising them. Yet Iraq's weapons have posed more of a threat to Iran than Israel's, and will soon be gone. And the forcible means of their going will demonstrate to Iran, as much as anyone, the scale of the nuclear risks it now runs.

Might it be too soon to be rethinking the security map of the Middle East? Far from it. That is, if next time the task is to be done peaceably.

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Water

Bogged down

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Why the private sector should play a bigger role in water supply

Corbis

LAST year's Johannesburg summit set ambitious goals for water in poor countries: to reduce by half, by 2015, the numbers of people without access to clean water or adequate sanitation. Since over a billion lack the first, and over 2 billion the second, this will be costly. At this week's third world water forum in Kyoto, Japan, a high-level report estimated that investment in water would have to rise from today's $80 billion-odd a year to nearer $180 billion. Where to find the cash?

Hard-pressed aid budgets cannot do it. So the bulk will have to be private. And here debate in Kyoto has been swamped in controversy. Many lobbyists fiercely resist the notion that private enterprise might improve poor countries' water supply. Water is too precious to be provided by the market, they argue. Privatisation pushes up water charges, does nothing for the poor and boosts profits of water barons. The activists cite Cochabamba, Bolivia, where three years ago riots (resulting in one fatality) forced the cancellation of a contract for a consortium, in which America's Bechtel Corporation was the highest-profile investor, to supply water.

Water is indeed special: people need it to stay alive, to grow crops and to keep clean, and dirty water spreads disease. As much as 95% of the world's water is publicly supplied, and most will remain so. But it is wrong to argue that there is no place for private finance or the marketplace in supplying water. It has been public utilities, not private companies, that have failed the poor. Too many are corrupt, inefficient and starved of investment. Half the water flowing through their decrepit pipes leaks. The subsidised water that gets through goes mainly to the better-off; the poorest often have to pay private water carriers ten times as much.

Privatising the provision of water need not mean higher charges—although charging provides money to improve supply and an incentive to use water wisely. The worst combination is a supplier that charges but fails to deliver reliably, as many public utilities do. Even when private companies charge full prices for water, that need not hurt the poor: they can be helped directly, eg, by vouchers. And indeed, private supply should not be left entirely to the market. Because local water supply is a natural monopoly, prices and quality need tough regulation. A public regulator may find it easier to take a tough line with a monopoly supplier, if the supplier is private.

Let new ideas flow freely

Plenty of successes stand against the tragic Cochabamba case, too. Abidjan has one of the few working municipal-water systems in Africa, provided for years by a private company. In Chile, private water suppliers have raised charges to cover full costs, but poor people get water stamps to pay their bills; now 95% of the population has clean water. In Argentina, a recent study concluded that, by raising quality and improving access, privatisation had reduced child mortality (see article).

The doubters should remember that one rich country has depended on private water for centuries. It is not free-market America, but statist France. Indeed, the world's two biggest private water companies are French. Just as noteworthy is that those who hate water privatisation most come from rich countries. Many poor countries positively welcome it: they worry more about getting water through the taps than whether it is public or private. As Deng Xiaoping once said: it doesn't matter if a cat is black or white, so

long as it catches mice.

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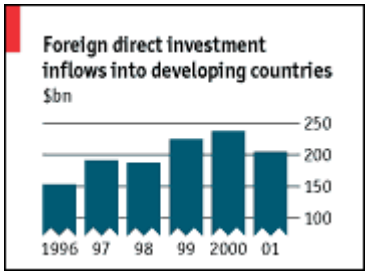
Poor-country debt relief

Forgive debt, not theft

Mar 20th 2003
From The Economist print edition

Lobbying groups are bullying companies in a misguided bid to help poor countries



FOR a company to find itself on the receiving end of a campaign by non-governmental organisations (NGOs) is a scary experience. Even giant multinationals tremble when Greenpeace or Oxfam get them in their sights. For the highly effective letter-writing campaigns that a well run NGO can mount are usually aimed at affluent yuppies, just the kind of customer most firms are loth to lose. Such groups thus have as much duty as any company to use their power responsibly.

In recent years, campaigning groups successfully persuaded the IMF and World Bank to forgive some of the massive debt owed by poor countries. Rightly: much of the money was never used for productive purposes; indeed plenty still sits in the Swiss bank accounts of third-world kleptocrats. Releasing poor countries from misused official loans is sensible, especially in return for economic and legal reforms that benefit the poor. But now the NGOs have turned their sights to a different sort of debt: corporate compensation claims for assets expropriated years ago. Here, they are doing harm, not good.

This week, Jubilee Debt Campaign, a campaigning group that had previously brought together Bono, a rock star, and the pope to argue for forgiving foreign debts, scored what looked like another triumph. Its threat of a public-relations campaign against Big Food, the parent of Iceland, a British supermarket chain, persuaded the company to drop its claim against the government of Guyana for £12m ($19m) in compensation for sugar mills seized in the 1970s (and now worth around $1 billion). Nestlé, under pressure from Oxfam, decided in January to give up its long-running claim against Ethiopia for assets seized by the country's 1970s Marxist dictatorship.

It is easy to see why company bosses would rather drop a rightful claim than stand up to a campaigning group. Too often, the NGOs pay little heed to the facts: Jubilee Debt Campaign's press release never mentioned that Guyana's “debt” was the result of nationalisation. Pressing a claim in international arbitration courts may give a company a symbolic victory, but it may never recover a penny. It is cheaper to cave in.

A victory for the poor? Sadly not. No wise company will readily invest fresh money in a country that fails to protect property rights. That is a pity, since foreign direct investments, which poor countries desperately need, have been in decline of late. Instead of allowing NGOs to fight their cause, governments of poor countries would do better to affirm their commitment to property rights and the rule of law, even by letting foreign companies return to manage and invest in their assets.

The NGOs' tactics suggest that they are more concerned about creeping capitalism than with the needs of the desperately poor. If they wish to do good, NGOs should begin by trying to encourage more, not fewer, investments in poor countries That would truly be, to quote the mantra of one NGO, “Justice for the world's poor.”

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Germany's reform package

Make or break—or muddle and sludge?

Mar 20th 2003
From The Economist print edition

The German chancellor's latest proposals offer hope—if they are built on

Get article background

AP

HERALDED as his most important offering since he undeservedly squeaked back into office last autumn, the economic-reform package unveiled last week by Germany's battered chancellor, Gerhard Schröder, should—if boldly and fully implemented—push his country in the right direction (see article). Mr Schröder sounded at last like a man who truly acknowledges that his country is in deep trouble and that something drastic must be done. He may even realise that he may have to inflict the sort of drastic course of medication and even surgery that would make the patient scream in agony before embarking on the road to complete recovery. But it is still not certain whether Mr Schröder, who has a patchy record in fulfilling promises and taking unpopular decisions, has the guts to do it. Much will depend, in the next six months or so, on his courage and skill in turning his proposals into substance, and keeping up the momentum to build on them.

That the patient is dangerously ill is no longer in doubt. Many of Mr Schröder's fellow Social Democrats still blame the lingering burden of Germany's reunification of its eastern and western parts and the global downturn for the bulk of their country's troubles. They still hope against hope that good health will return without the sort of butchery that is plainly needed, whatever the state of the rest of the world. But Germany has the slowest growth—a pathetic 0.2% last year—of the 12 countries in the euro-zone. It has one of the highest unemployment rates—11.3%, or 4.7m people, by the latest unadjusted measure—in the rich world. The number of bankruptcies has broken all post-war records. The *Mittelstand* of mainly family owned small-to-medium-sized companies, long admired as the backbone of Germany's economy, is in dire straits. Germany's stockmarket slump, over the past few years, has been spectacular even in comparison with elsewhere. Many of the country's biggest banks are floundering.

Against this gloomy backdrop, the chancellor has taken some undoubtedly courageous steps. Most strikingly, and to the consternation of the trade unions, he has proposed swingeing cuts in the duration and amounts of unemployment benefit that go beyond what was proposed last summer by Peter Hartz, a Volkswagen manager, whose government-appointed commission made a slew of recommendations intended to address some of the most patent failings of Germany's labour market. The chancellor has also suggested ways that would, in effect, weaken job-protection in small companies and encourage employers to hire new workers. He says he will encourage wage bargaining at company level rather than within the present suffocating straitjacket of nationwide deals. He also intends to break the closed shop for skilled craftsmen which makes services more expensive. Above all, he says he is determined to reduce the non-wage costs of labour, which now add 42% to employers' wage bills. And he promises to tackle pensions and health care.

All this, on the face of things, is splendid news. But the caveats are enormous. It would be unfair to say that Mr Schröder is merely tinkering. The trade unions' squeals suggest he is doing a lot more than that. But it is fair to say that the proposals mark only a start—and that much depends on whether Mr Schröder can build them into a coherent new strategy that plainly signals that Germany is moving away from the cosseting and consensual fudge of the past to a harder-edged society that can thrive in an unforgiving global market.

He could go either way

Many of the proposals could yet be tweaked in the wrong direction. Mr Schröder needs the co-operation of the opposition on the right, which controls the Bundesrat, Germany's upper house of parliament. In particular, he has refused to attack the fundamentals of job-protection legislation that make it so hard for employers to hire and fire as the business cycle goes up and down. Nor has he spelt out legislation to make wage bargaining more flexible. So far, his proposals to reduce non-wage costs would nibble at them, not bite out chunks. On health care and pensions, Mr Schröder has yet to present more than a blurry outline of promised plans to come.

In sum, Mr Schröder's reforms are piecemeal. They could yet be watered down—or beefed up, as they would have to be if they are to give the German patient a chance of recovery. To date, and not just on economic matters, Mr Schröder's record suggests he is an artful opportunist who backs down when the going gets rough. Now is his chance to prove the doubters wrong. For Germany's—and Europe's—sake, hope he does.

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Letters

Mar 20th 2003
From The Economist print edition

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Divided on Bush

SIR – You say that "Denouncing American 'unilateralism' may be easy on soft issues such as global warming, the International Criminal Court and so forth. On the hard issues, America remains the indispensable superpower" ("Taking on the world", March 8th). It is precisely because the Bush administration has made it so "easy" for others to denounce America on soft issues that it is coming to such grief on the hard issues. This administration handles diplomacy like a bull in a china shop. There are better ways—less abrasive, less arrogant, less unilateral—to reach the administration's foreign-policy goals. Too bad that George Bush did not think about that when he started his term.

David Rosoff
Roswell, Georgia

SIR – No one understood Mr Bush's campaign pledge to be a "uniter" as a renunciation or abandonment of positions he expressly and strongly espoused (Lexington, March 8th). Changing the tone meant treating the opposition with civility and seeking to address the issues on their merits, rather than by the demonisation of opponents and disparagement of their alleged aims and motives, which characterised "debate" during the previous administration.

As for foreign policy, Mr Bush has given clear reasons for decisions on issues such as the environment, anti-ballistic-missile treaties and Iraq's failure to comply with commitments that terminated the Gulf war. Those who disagreed with Mr Bush, rather than show the reasons to be baseless, false, or artificial, took their cue from his domestic opponents and responded with labels—unilateral, arrogant, cowboy and imperialist, among others.

Thomas McGuire
Bonners Ferry, Idaho

SIR – Mr Bush has certainly taken a stern line with opposing politicians both within and outside the Republican Party. His way of dealing with "the people", however, has not taken on the "us v them" mentality typical of the Clinton years. Mr Bush seems to have a genuine feeling for the travails of folk, having himself fallen and risen again in his personal life. We know sympathy when we see it and pandering, too. Before calling him a divider, consider that people of goodwill may disagree and remain united. Many of Mr Bush's critics disagree through personal animus and knee-jerk responses not suggestive of cogent consideration. Who, then, divides?

Patrick Harris
New Orleans

Bravo Brazil

SIR – Your survey of Brazil starts with a question which is as unanswerable as Professor Henry Higgins's exasperated query on why cannot a woman be more like man (February 22nd). Why is Brazil not rich like America? You could ask why cannot Spain be more like Germany? Or why cannot Luiz Inácio Lula da Silva (God forbid) be more like George Bush? Cultures and people differ, for better or for worse.

Far from being a social and economic underachiever, Brazil is the only example of a success for western

civilisation in the tropics (look at the mess that Britain, France, Germany and Portugal made in Africa). Brazil was built in a hostile territory larger than Europe. For nearly a hundred years it was the fastest growing economy in the world; the only constitutional monarchy in the Americas (while its neighbours changed voracious *caudillos* every other day); and the only military dictatorship which never had a dictator, changing its heads of state regularly every five years. It is the only democracy in the world where a man with Lula's background could be elected cleanly without bringing chaos and disruption to society and the economy.

Roberto Andrade
Rio de Janeiro

SIR – If the United States has a murder rate of 5 per 1,000 inhabitants and Brazil over 25 that translates into roughly 1.4m Americans and 4.5m Brazilians killed every year. My first reaction to this was to start looking for jobs somewhere outside America. My second reaction was to check the figures, which turn out to be per 100,000 population. The streets are (relatively) safe again.

Mikhail Zeldovich
Washington, DC

SIR – You say that Getulio Vargas, a former Brazilian president, killed himself by putting a bullet through his own head. In fact, he shot himself in the chest.

Jorge De Rosa
Rio de Janeiro

SIR – Brazil's Portuguese colonial past is mentioned as an explanation for many of the country's present-day problems. After 181 years of Brazilian independence, we Portuguese should at least be proud of being one of the longest-surviving scapegoats in history.

Nuno Guedes
Lisbon

Ugly profile

SIR – I am shocked by your suggestion that racial profiling of Muslims since the September 11th attacks is justified ("A question of freedom", March 8th). If there is anything that the 14th amendment is designed to prevent, it is the invidious use of racial classification. You find affirmative action unconstitutional but think racial profiling within the bounds of the same constitution.

Some months ago, you said that Senator Trent Lott should step down from his position as Senate majority leader after making racially insensitive remarks ("Beyond the pale", December 14th 2002). Now, race (or religion) is used as justification for the most invidious of government treatment—racial profiling. After Timothy McVeigh committed his heinous act of terrorism in 1995, did you think that all white men aged between 18 and 35 should be subjected to racial profiling? If the government actively engages in the racial profiling of Muslims, do you believe that this will weaken the claims of Islamic fundamentalists that America's war on terrorism is really a war on Islam?

Tarun Mehta
Washington, DC

A squeeze on business

SIR – As I understand the Andean-balloon theory, squeezing the balloon tightly merely forces drug production curtailed severely in one area to a place not being squeezed ("The balloon goes up", March 8th). The temporary eradication of coca plants in Colombia merely increases the opportunity for Peru or Bolivia to pick up the lost production. This is the balloon squeezer's nightmare.

However, bear in mind that most balloon analogies end up with an enormous "pop". That is certainly what is intended by those who espouse a biological solution to the problem. The mycoherbicide brigade will force Andeans into growing less noxious plants where drugs are now produced. Government discussion is already under way in America.

Walton Cook
Boalsburg, Pennsylvania

SIR – You say that the cocaine industry is enjoying rising prices and a 10% boost in output per acre. John Walters, the American drug tsar, is to be commended for the way in which his efforts have made a big industry more productive and profitable. Who says that onerous regulation is bad for business?

Alex Small
Goleta, California

Curbing tobacco use

SIR - Quite amazingly, your article on international tobacco control ("Killjoy woz here", March 8th) fails to mention even the basic rationale for implementing tobacco-control policies across the globe. First, tobacco use kills. Second, it is highly addictive. And third, most users take up the habit as children and teenagers. It is the combination of these three facts that makes the case for deterring smoking worldwide.

Notwithstanding the above, it is shocking, to say the least, to see your newspaper conclude that there is not much evidence to support the claim that higher taxes curb tobacco use ("Quitting is tough", Global Agenda, Economist.com, March 3rd). Scores of studies, reviews and analyses using diverse datasets in several countries, including some by a Nobel prize winner from the University of Chicago (hardly a "health nanny"), all conclude that higher tobacco prices lead to lower consumption.

Never mind what the likes of the World Bank, the IMF and the WHO conclude: tobacco companies themselves agree, as shown in previously secret internal company documents made available through litigation. As a Philip Morris document put it: "Increases in taxation, which reduce consumption, may mean the destruction of the vitality of the tobacco industry."

David Boisclair
Laval, Québec

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War with Iraq

A fight to the finish

Mar 20th 2003
From The Economist print edition

EPA

Diplomacy ends and the war begins

Get article background

THE world had been primed to expect an air onslaught inspiring “shock and awe”. Instead, the visible part of the American-led war started in the early hours of March 20th with a series of short, sharp attacks by cruise missiles and Stealth bombers on a location in Baghdad where the Americans apparently hoped to kill Saddam Hussein and his top lieutenants. If Iraq's dictator was the target, the first attack missed its mark. He popped up on television promising that Iraq would vanquish the invaders. Soon afterwards, Iraq fired missiles—Scud missiles which Iraq had claimed not to possess, said unconfirmed reports—over the border into Kuwait.

From the White House, George Bush formally announced the “early stages” of what he promised would be a broad and concerted campaign “to disarm Iraq, to free its people and to defend the world from grave danger”. He promised that American forces would do their utmost to spare civilians from harm, but gave warning that the campaign could be “longer and more difficult than some predict”. The president also tried to put a brave face on America's diplomatic position by claiming that the United States enjoyed the support of a broad coalition, consisting of “more than 35” countries that had given crucial support, from the use of naval and air bases to help with intelligence and logistics to the deployment of combat units.

In truth, of course, the war started after America, Britain and Spain had been forced to abandon their quest for explicit new authorisation to go to war from the UN Security Council.

To the last, France had promised to veto any such resolution, insisting that the UN weapons inspections were making progress and should be given more time. Britain and Australia are the only countries to have sent forces to fight alongside the superpower. And the opening of hostilities was greeted by a torrent of condemnation from around the world. Russia's president, Vladimir Putin, called America's military action “a big political error” and called for it to stop. Earlier, the Russian parliament had put a shot across his bows, as well as America's, by putting off ratification of an American-Russian arms-cutting treaty in protest at the war. China's foreign ministry said that the resort to war was “a violation of the UN charter and the basic norms of international law”.

There was potentially better news for America from Turkey, which was this week preparing to grant American aircraft overflight rights, if not the bases America's generals had originally hoped to use to open a northern front in Iraq (see article). But Turkey's president said that the UN inspections process should have been allowed to finish. “I do not find it right that the United States behaved unilaterally before that process ended.”

Among the offers of help for America are several from countries with special units to sniff out chemical and biological weapons, to add to America's own specialised equipment and forces. The possibility that Mr Hussein might order the use of such weapons against coalition forces (or against his own people while trying to pin the blame on others) makes tracking down his stocks of them one of the most urgent military tasks. But uncovering Iraq's deadly arsenal is also important politically, to demonstrate that Mr Hussein had no intention of disarming under the now aborted UN weapons inspections. If the Iraqi missiles that landed in Kuwait really were outlawed Scuds, the Anglo-American case for war will have been mightily vindicated.

Remember Mr Blix?

Just hours before the assault on Iraq started, a wistful Hans Blix, the chief weapons inspector, delivered an 83-page report to the Security Council listing the “key remaining disarmament tasks” still outstanding in Iraq. He said he was disappointed that the inspectors had not been given more time, but acknowledged that Iraq had failed to provide the information they needed to do their disarming work.

For now, the weapons inspectors and their work have become a part of history. But behind the exchange of insults, and even while the war is in progress, it is possible to detect moves towards a post-war reconciliation. America and Britain, as much as France and Germany, were this week predicting a big humanitarian role for the United Nations in post-war Iraq. That, it is hoped, will help heal the rifts at the UN, across the Atlantic and within the European Union. But, like the rebuilding of Iraq itself, it will be a long, slow process. Winning the war that is now under way is only the start of it.

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Turkey, Iraqi Kurds and Iran

The battle for northern Iraq

Mar 20th 2003 | ANKARA AND TEHRAN
From The Economist print edition

They all want a piece of the action

AP

But the Kurdish guerrillas have been told to stay put

Get article background

BATTERED by months of unrelenting pressure and threats from the Bush administration, Turkey's government at the last minute limped on board the American-led coalition against Saddam Hussein. The change of heart may be too little, too late, at any rate for Turkey's purposes.

Over half a century of strategic ties between Turks and Americans have been under unprecedented strain since March 1st, when the Turkish parliament rejected a measure that would have allowed tens of thousands of American combat troops to use Turkey as a launching-pad for a northern front, striking the Iraqis through the Kurdish-controlled enclave in northern Iraq. The alarm bells rang in earnest after Colin Powell, America's secretary of state, declared that Turkey would no longer be getting a $6 billion aid package.

News of the withdrawal sent both the Istanbul Stock Exchange's main index and the Turkish lira into a tailspin on March 17th. Tayyip Erdogan, the new prime minister, was galvanised into action. He scrambled to get members of his ruling Justice and Development Party, many of whom had voted against American troop deployment, to agree to a second bill. This was due to be voted on in parliament on March 20th.

In an 11th-hour haggle with the Americans, the government put the final touches to a new motion that would allow American bombers to use Turkish airspace throughout the war. As an additional sop, the Turkish government has also been looking the other way as American troops and equipment, authorised to enter Turkey under a measure approved last month that allows American military technicians to upgrade Turkish ports and bases, were being quietly moved into northern Iraq.

What return can Turkey hope for? Not much. Mr Powell reaffirmed on March 19th that the $6 billion was off the table. All Turkey has got so far is an American statement that it will not, after all, withdraw its support for loans from the International Monetary Fund. With $93 billion of debt repayments already due this year, panic is deepening in the Istanbul markets.

Moreover, friction with America—let alone with the Kurds—is bound to mount as the government seeks parliamentary approval for dispatching 20,000 Turkish troops into northern Iraq. The cost of keeping

them there may send the government spiralling even further into the red. Kurdish alarm has been gathering as the Turks continued to carve out a 30km-wide (18-mile) “security zone” along the Iraqi side of the border, and to send in tanks. Last month Massoud Barzani, the leader of the KDP (one of the two main Kurdish factions governing northern Iraq) said that the Kurds would resist all further intrusions.

The main message that emerged from this week's meeting of Iraqi opposition leaders in Ankara was that Turkey should keep out of the Kurdish enclave, or face resistance not only from the Kurds but also, or so they hope, from the Americans. “The Turks must be made to understand that their presence will be disastrous both for us and for themselves,” said Nechirvan Barzani, the KDP's number-two man.

With difficulty, the Americans have managed to persuade the Kurds to promise to refrain from making a lunge towards the oilfields at Kirkuk (just outside their enclave), and to agree to place their 60,000 *peshmergas*, or guerrillas, under American command. But the Turks still fear that the Kurds will seek to break away from Baghdad once Mr Hussein falls, and they believe that, by wading in, they can prevent this happening. They also claim that their presence will keep Iraqi Kurdish refugees (and Turkish Kurdish separatists) from flooding into Turkey.

Before the Ankara meeting, the Kurds sent delegates to reassure America, Iran, Syria, Egypt and Saudi Arabia of their modest intentions. “We have resigned ourselves to the hand geography has given us,” said Barham Saleh, prime minister under Jalal Talabani, the leader of the other main Kurdish faction, the PUK. But, Mr Saleh added, “[Turkish] military intervention would only complicate matters. If one neighbour gets into Iraq, the others will too, and it will be a mess.” One such complicating neighbour is Iran.

The Iranians have come to accept that the Americans will not allow them the sort of adventure they had at the end of the 1991 Gulf war, when they tried to hijack an uprising by their fellow Shias in southern Iraq. They, like the Turks (and Syrians), fear the effects of Kurdish irredentism on their own Kurds, and the two governments may have reached some sort of agreement. There were rumours, after a meeting in Ankara last week, that Iran might be able to tolerate a smallish Turkish incursion into northern Iraq—so long as it kept out of Kirkuk and Mosul, and so long as the boundaries of the “security zone” were kept modest.

No doubt to discourage the Iranians from doing it themselves, the Americans have told Iran that they will somehow neutralise the People's Mujahideen, the armed Iranian opposition based in Iraq. They have also warned the Badr Brigade, a group some 10,000 strong which fights under the flag of the Iran-based Supreme Council for Islamic Revolution in Iraq (SCIRI), that it is not to get involved.

But last year Iran brokered an agreement between the Badr Brigade (which it equips and to some extent commands) and the PUK, and the brigade has bases in PUK territory in northern Iraq. From those redoubts, it is said to be hoping to provide what one of its leaders calls “security on the ground” in certain “liberated” towns. The SCIRI is keen to have strategic towns in its possession when it comes to the grand post-Saddam bargaining for political power in Iraq.

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Iraqi refugees

No welcome

Mar 20th 2003 | ABU KARAMA, SYRIA
From The Economist print edition

Iraq's neighbours close their doors

Get article background

GIANT mosaics of two dictators, Saddam and Assad, smile at each other across the dustbowl of the common frontier. Near-identical flags fly on both sides of the border, insignia of the Arab nationalist party, the Baath, which has dominated both countries for the past 35 years. But what do the standard-bearers of Arab solidarity care for the safety of Arab people? On what Syria claims to be Iraq's last open frontier, two metal chains bar safe passage out of Iraq.

Guards lower the chains for the entry of such assets as cranes and oil tankers, but keep them taut for frightened Iraqis seeking sanctuary for their children. In the 30-metre stretch of no-man's-land between the borders, a Baghdad family beds down in a battered Mercedes. “The guards say the immigration chief is sleeping,” says the father of three from behind the barbed wire.

But the chief is on the phone to Damascus, receiving orders that, to cut down the estimated 3,000-strong daily influx, Iraqi families are henceforth to be banned. Third-country nationals without visas are also sent back to Iraq. Last month Syria agreed to allow UN agencies to monitor arrivals at its borders, but then forgot to issue visas to the 21 staff the UN hired for the job. On the eve of war, Syria's prime minister confirmed to UN officials that no Iraqi refugee families would be admitted.

Individual Iraqis bearing a briefcase stand a better chance of admittance. Entrants include Sabbagh, a moneychanger in a pinstripe-suit fingering his prayer beads, and the eight-man crew from the Syrian Petroleum Company abandoning their exploration rig.

Syria is not alone in fearing the influx. For 12 years Jordan has dined on Iraq's wealth—in the form of 80,000 barrels of oil a day—but balks at admitting unwanted Iraqis. Turkey, Iran and Kuwait have also vowed to keep their borders barred. But the most effective block is Saddam Hussein himself. Keeping his people trapped as his cities become battlefields, Mr Hussein has shut down all but a tiny fraction of petrol stations.

Tailbacks at garages in the country with the world's second-largest oil reserves stretch back miles. Some cars have been there for days. Unable to refuel along the 500km (300-mile) desert highway from Baghdad to the Jordanian border, Iraqis are looking for safety nearer home. House sales are booming amid the orange orchards of Baqouba, an hour's drive from Baghdad.

In 1958, Mr Hussein fled to Syria on a motorbike after an aborted attempt at Iraqi regime-change by assassination. If only, say Iraqis stoically facing devastation, he could repeat that journey.

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Inside Iraq

Loyalties tested

Mar 20th 2003 | BAGHDAD
From The Economist print edition

Now under fire, how many Iraqis will willingly die for Saddam?

Get article background

EPA

Time to stock up, and wait

THE bombing began at the hour of the first prayer. Many people in Baghdad were therefore already awake; many had, in any case, spent the night in wakefulness. On the last day before the expiry of President George Bush's ultimatum, the streets had been eerily clear. At the dawn of the next day, however, people ventured back. The mood was calm, even as the missiles and fighters roared over. Some said, “We're used to this.”

“Brave strugglers”, their leader called them, appearing on television in military uniform and black-rimmed glasses to denounce the attacks three hours after they began. The day before, Naji Sabri, Iraq's foreign minister, had also donned military uniform and denounced Mr Bush and Tony Blair as warmongers, “pygmy colonialists” and idiots. State television had shown mass rallies of support for Mr Hussein all across the country. In one final demonstration in Baghdad on March 15th, tens of thousands trooped past a reviewing stand to pledge their blood and souls to their leader. Handbags in hands, groups of matronly supporters stamped on a burning Bush effigy with considerable zeal.

How deep such sentiments go is hard to gauge. The thousands of students who filed past in the Baghdad rally were carrying their books with them. They had turned up for classes unaware of the change of timetable. Some of Iraq's newly loosened tongues are claiming that many Iraqis do indeed love their president; but how many, nobody knows. Just before the first raids, few of those questioned on the streets of Baghdad seemed to think that anyone would die willingly for Mr Hussein. One said that he expected Baghdad's main Rashid Street to be renamed “Bush Street”, in honour of the “liberator”.

Most of the shops in Baghdad have now been emptied of goods. Windows have been taped up or bolted with iron shutters; on some, shutters and grilles have been soldered together. Shopkeepers seem less concerned by the bombs (which at first, according to the information minister, fell on a TV station and on the suburbs) than by the prospect of looting in the wake of a collapse of the regime. Men from the ministries, by contrast, have trucked out their computers and valuables on the fairly clear understanding that their workplaces will soon be rubble and ash.

Some 60% of Iraqis rely entirely on food rations supplied to them by the government through the UN's oil-for-food programme. In the past few weeks, the authorities have issued families with several months'-worth of rations in advance. Yet, even as the bombing began, those with enough money were crowding into whatever shops were open and stocking up with last-minute supplies. The price of a bottle of water has tripled, and in three days the (black-market) Iraqi dinar has lost a third of its value against the dollar.

Many of those who can afford it have either left Baghdad or sent their families away. Some have gone to stay with relatives in the provinces, while those who can get in have gone to Jordan or Syria. For weeks, the Jordanian border has been closed to all but a lucky few. Many made a diversion to the Syrian border, but that option has now closed too.

More and more parents have been keeping their children at home, especially the younger ones. A teacher

at Baghdad's Sparrows Meet kindergarten, who normally has 40 children in her class, now had only 11. Shortly before the war began she took her charges, some as young as two-and-a-half years old, to the city museum devoted to the life of Mr Hussein and the gifts he has been given over the years. He may not get many more.

As war started, sandbagged positions and trenches were reinforced with small tanks. They were positioned in strategic places and in front of all official buildings. Armed men—from the army, the Baath Party and in plain clothes—were visible on the streets, but there was no other sign of great military preparations. The battle many fear is less the one with the invader than the coming struggle between die-hard Saddam loyalists and those Iraqis who have lost their fear of him.

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The Israeli-Palestinian road map

Dusting it off, perhaps

Mar 20th 2003 | JERUSALEM
From The Economist print edition

After the war is over, the Americans say, they will try for peace

AP

Goodbye to all that?

Get article background

ARIEL SHARON has assured the Israelis that the risk of their country coming under Iraqi attack is as low as 1% (though their army is taking 100% precautions). But the odds on Israel being faced with a new diplomatic battle, once the shooting war is over, have suddenly risen.

George Bush and Tony Blair have both made high-profile, eve-of-war pledges to get on with their much delayed and still officially unpublished “road map to a two-state [Israeli-Palestinian] solution”. The Palestinians have taken the first step on that path, by appointing a prime minister wielding real executive powers. And Mr Sharon's government, by leaking a slew of hard-nosed proposed “amendments” to the map, has fired its first delaying volley in the coming war of words.

A draft of the road map—apparently approved by the “quartet” of would-be peacemakers (America, the EU, Russia and the UN) but kept under formal wraps by American and Israeli demand—calls for the creation by the end of this year of “an independent Palestinian state with provisional borders and attributes of sovereignty.” Israel wants “independent” out. And it wants the word “certain” inserted before “attributes of sovereignty”. It is also unhappy with the “maximum territorial contiguity” envisaged for this provisional Palestinian state, and suggests adding the proviso, “where this is possible”.

But that haggle is over the still wholly hypothetical Phase II of the map. Mr Sharon is digging in for a hard fight over Phase I. (In the original draft, this was unrealistically supposed to happen by May 2003; Phase III looks loftily to a permanent agreement and a final end to the conflict by 2005.) Phase I calls, among much else, for an end to violence, the building of Palestinian institutions, and the normalisation of Palestinian life. Israeli cynics say that Mr Sharon never dreamed that the Palestinians would comply with the crucial American-Israeli precondition that the famously autocratic Yasser Arafat hand the running of the battered Palestinian Authority to a prime minister.

This, however, has happened. Meeting in Ramallah, the Palestinian parliament unanimously approved the post of prime minister: a sharing of power that Mr Arafat was reluctantly persuaded to accept to protect his leadership and his regime. His reluctance was revealed by his last-minute attempt to insert an amendment that would have insisted that any new cabinet formed by the prime minister should be

“presented” to him first. Parliamentarians belonging to his own Fatah movement insisted that he withdraw this change.

The new order leaves Mr Arafat in charge of negotiations, foreign policy and “national security”. The prime minister will have independent powers to govern the Palestinian areas, including policing them. Mr Arafat's nominated candidate for the post is, as expected, Mahmoud Abbas, also known as Abu Mazen, the deputy leader of the Palestine Liberation Organisation who has publicly and repeatedly urged an end to the violence against Israel. He has three weeks to form a government.

Mr Sharon's aides say that the test of the new man will be his ability to clamp down on terrorist groups. Palestinians reply that Israel's constant and bloody armoured incursions into Gaza, and the enforced siege and paralysis of the West Bank, are hardly conducive to the “visible efforts” that the road map says the Palestinian security forces must make to “arrest, disrupt and restrain...violent attacks on Israelis anywhere.”

Palestinians are deeply afraid that Mr Sharon will use the Iraqi war to impose a settlement by force of arms, thus avoiding the risks of diplomacy. At least 15 people were killed this week in the continuing attacks on Gaza. One of the dead was an Islamic Jihad leader: others included a two-year-old girl and a 23-year-old American peace activist, Rachel Corrie, who was crushed to death by an army bulldozer as it demolished a Palestinian house.

When the-then Likud prime minister, Yitzhak Shamir, was dragged reluctantly to a Middle East peace conference in Madrid in 1991 by the-then President Bush, after the-then Iraq war, Mr Sharon, a member of his cabinet, made Mr Shamir's life a misery. Mr Sharon now faces the same threat from his hardline coalition partners.

The road map requires Israel, as part of Phase I, to “dismantle settlement outposts erected since March 2001” and “freeze all settlement activity (including natural growth)”. Two parties say they will walk out if the settlements are touched. But for Israel's remaining peaceniks, who look back misty-eyed to Madrid as the breakthrough to Oslo, the prospect of new and serious American arm-twisting, applied to both sides, is viewed with relish.

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Shia Islam

The martyrdom of Hussein

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From The Economist print edition

Shia Muslims, long discriminated against, hope for gains from the war

Get article background

EARLIER this month Shia Muslims celebrated the martyrdom of Hussein. Not Saddam, but rather Imam Hussein, a descendant of the Prophet Muhammad, who was killed at Karbala in Iraq 1,323 years ago, and was thus denied the leadership of Muslims that Shias believe was his right. Ashoura, the day of remembrance, is marked by noisy public mourning mixed with calls to emulate the imam's sacrifice: calls often charged with the politics of resistance to oppression.

This Ashoura bore special meaning for the world's 150m Shias. American troops are poised to free their most fabled shrines and colleges from 30 years of tyrannical rule by Iraq's Baathist Party. Yet the liberators are also infidels who plan to occupy the historic Shia heartland and mould its politics to their ideals. Not surprisingly, Shias, unlike the more numerous Sunni Muslims worldwide who oppose American action, have very mixed feelings.

Mr Hussein, a Sunni, plasters his own picture on the walls of Shia shrines in Iraq and claims descent from the prophet. But his agents have murdered some 250 Shia clerics, including two of the highest-ranking ayatollahs among the half-dozen or so to have emerged in the past generation.

The war Mr Hussein launched in 1980 to bleed the Iranian revolution, an upheaval that had rattled his secular regime by creating the first-ever Shia theocracy, cost 1m lives. Most of the 250,000 Iraqis who died were Shias, not just because Iraq's army reflected the country's 60% Shia majority, but also because its Sunni command tended to keep loyal Sunni troops in reserve. In 1991, those troops smashed the holy shrines of Hussein, at Karbala and of his father, Ali, at Najaf, with tanks and artillery.

The brief uprising they crushed was not the first time Shias had attacked the Baathist regime. The first “martyrdom operation” ever carried out by an Islamist group was the 1981 suicide-bombing of the Iraqi embassy in Beirut, which killed 27 people. That atrocity is believed to have been the work of nascent Shia militant groups, backed by Iran and Syria, which waged a shadowy, decade-long war against the Iraqi regime. These loosely connected groups, which shared common spiritual roots in the colleges of Najaf, came to include Hizbullah in Lebanon as well as the Iraqi Shia opposition groups: al-Daawa and the Supreme Council for the Islamic Revolution in Iraq (SCIRI).

Yet if the enmity of these groups to Saddam Hussein is visceral, America itself ranks close in wickedness. This is not just because of enduring hostilities between the United States and Iran. In 1985 the CIA was accused of targeting Muhammad Fadlallah, a revered Lebanese cleric, in a car bombing that killed 80 civilians. Mr Fadlallah had been fingered as the “spiritual guide” of Hizbullah, the militant Islamist group that was responsible for the blasts in Beirut that killed nearly 400 American marines and diplomats. For years afterwards many Shias believed that Saddam Hussein was an American agent.

Suspicion of America also arose from its joint backing, with Saudi Arabia, of extremist Sunni movements. The Afghan *mujahideen* destroyed dozens of Shia villages even before the Taliban came along, while radical Sunnis in Pakistan have murdered as many as 1,000 Shias since 1990, often shooting them down in mosques. Bahrain's Shia majority, and the minority Saudi community that lives above the kingdom's oilfields, have long chafed under Sunni governments that happened to be America's friends.

Yet such travails have not united Shias. Their differences go beyond the branching of this strand of Islam into esoteric subsects such as the Ismailis, the Druze and the Alawites, who dominate

Syria. Even inside the Shia mainstream, competition between senior clerics for influence, and for control of the lucrative tithes paid by the faithful, has spawned bitter political divisions. One result is that Iran's conservative clerics have signally failed to export their brand of revolution beyond a few nominal allies, such as Hizbullah.

Top theologians, even inside Iran, prefer aloofness from worldly affairs to the late Ayatollah Khomeini's doctrine of placing worldly power in the hands of a single senior cleric. Non-Iranian Shias dream of restoring the scholarly pre-eminence of Najaf at the expense of the ayatollah's hometown, Qom. “It is in our genes as Arabs to claim rightful leadership of the faith,” says Bayan Jabur, a SCIRI official in Damascus.

Angry, but not united

Population, 2001,m

	Shias*	as % of total	Total
Iran	63.5	89.0	71.4
Pakistan	28.1	20.0	145.0
India	27.0	2.0	1,025.1
Iraq	14.1	60.0	23.6
Afghanistan	3.4	15.0	22.5
Saudi Arabia	1.5	7.0	21.0
Lebanon	1.0	27.8	3.6
Kuwait	0.5	25.0	2.0
Bahrain	0.3	50.0	0.6

Sources: UN; Statesman's Yearbook; Economist Intelligence Unit

*Latest

But no issue has proved as divisive as America's role in Iraq. Iran's rulers have been studiedly neutral, praying for Mr Hussein's demise yet fearing America wants to get them next. Many of the Shias in Kuwait, Saudi Arabia and Bahrain quietly support efforts to free their Iraqi brethren, hoping that the new Iraq will grant Shias a larger space and so pressure their own governments to do likewise. By contrast, Hizbullah's leaders rage at the thought of marines among the minarets of Karbala. “When Israel invaded here in 1982 we met them with showers of rice and roses,” recalls a spokesman. “One hundred days later we blew up their headquarters.”

Iraq's own Shia parties, long split between those who reject American help and those who invite it, met in Tehran recently to iron out their differences. The compromise was that they would “exploit any American action”, but then resist occupation by all means. The Badr Brigades, SCIRI's guerrilla force, have already assumed striking position in Iraqi Kurdistan, 100 miles from Baghdad. America wants them to keep out of the fighting. But, for the glory of martyrdom, they may well try to get there first.

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Urban warfare

The last battle

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Imagining the battle for Baghdad

Get article background

MILITARY strategists and doctrine generally agree on how to fight in cities: if possible, don't. Yet the final engagement of what Saddam Hussein calls the last great battle may occur in Baghdad, a metropolis of more than 5m people, give or take those who have managed to escape. How costly might that fight prove?

Much of the Republican Guard is stationed around Baghdad, with the Special Republican Guard and various security and paramilitary groups inside the city. Facing American and British forces, they would enjoy the natural advantage that has accrued to defenders from the siege of Troy to that of Stalingrad and beyond: superior knowledge of the terrain. They would be able to hide and lay ambushes in the city's markets, slums and sewers.

Conversely, the allies' principal advantage—technology—would be largely neutralised. “Urban operations”, says Andrew Krepinevich of the Centre for Strategic and Budgetary Assessments, “tend to be manpower-intensive and to devalue technology—the exact opposite of how the American military is structured to fight.”

In open terrain, American and British forces will be able to see and shoot further and more accurately than the Iraqis. But built-up environments would hamper surveillance and communications, and involve fighting at much closer quarters. As in Mogadishu in 1993, when Somali clansmen shot down a clutch of American Black Hawks, deploying helicopters over urban battlefields is risky. In this case, Iraq's air defences have been clustered in and around Baghdad. American and British troops would have better night-vision equipment, and unmanned aerial vehicles might have a role. But the besiegers will also rely on lower-tech kit such as grappling hooks and battering rams.

So any serious fighting in Baghdad (or in Tikrit, another plausible redoubt) could have two consequences. Many more British and American soldiers—perhaps thousands—are likely to be killed than died in the first Gulf war, testing the theory that September 11th has made Americans less squeamish about bodybags. And, in spite of all the talk of liberation, thousands of Iraqi civilians could also die.

AP

Baghdad is unlikely to be wrecked as the Chechen capital, Grozny, was, under Russian fire in the 1990s. The allies should be able to strike discrete and legitimate targets with precision (assuming that intelligence about Iraq's capital is superior to NATO's intelligence about Belgrade). But taking on Iraqi forces dispersed around the city will involve individuals making quick decisions, and inevitably mistakes, about whom to shoot. In such situations, delay or caution can itself be deadly. When young soldiers get scared and angry, they can tend to panic. And as the battles for Hue, in Vietnam, in 1968 and for Manila in 1945 suggest, American rules of engagement can become more permissive the longer and costlier urban battles become. If Mr Hussein deploys chemical weapons, or lots of human shields, the battle of Baghdad could be especially nasty.

In theory, there is a better way to conquer cities than levelling them or, Stalingrad-style, fighting hand-to-hand, door-to-door. American and British commanders would try to apply the principles of manoeuvre warfare, destroying or seizing key props of Mr Hussein's regime. Russell Glenn of

Rand, a think-tank, points to the opening assault on Hue by the Vietcong and North Vietnamese, and to America's strike on Panama's cities in 1989, as examples of such surgical operations. But counter-examples are much more common.

Iraq may be shocked and awed into submission. If not, the invaders may choose to isolate Baghdad (and Tikrit) in the hope that they surrender. Even the Republican Guard might prove disinclined to fight, though the Special Republican Guard is more worrisome. But the allies won't be able to wait indefinitely. If they go in, much will depend on whether ordinary Iraqis stay at home, turn on Mr Hussein, or—inflamed by sanctions and bombings—turn against his enemies.

Grozny's example

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The legal arguments

Pro, con and muddled

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Lawyers on both sides are not short of ammunition

Get article background

IS AN attack on Iraq legal? The decision of the United States and Britain to invade may seem to have made this question irrelevant. But that is not how the world's leaders have been behaving. America and Britain have both insisted for months that they have legal authority for any such attack. France, Russia and China have been equally adamant that, without another Security Council resolution, they do not. Kofi Annan, the UN's secretary-general, also believes that such an invasion is not “in conformity” with the UN Charter.

In his televised speech on March 17th, George Bush stressed again America's view that it was “authorised to use force” by earlier Security Council resolutions. On the same day, Britain's attorney-general, in an unusual move, published his official advice to Tony Blair, the prime minister, making a similar argument, and the Foreign Office issued a more detailed version. International legal experts have been just as divided as the great powers, and their fierce debate has plunged deep into the textual analysis that every lawyer loves.

The UN Charter makes the use of armed force legal in only two circumstances, described in two articles of Chapter VII. Article 42 says that the Security Council may “take such action by air sea or land forces as may be necessary to maintain or restore international peace and security”. Article 51 allows the use of armed force in self-defence (more on this later).

After Iraq's invasion of Kuwait in 1990, the Security Council passed a number of resolutions under Article 42, first demanding that Iraq withdraw, then authorising the use of “all necessary means” (diplomat-speak for armed force) to make it do so and to “restore international peace and security in the area” (Resolution 678). After the liberation of Kuwait, the council passed Resolution 687, the lengthiest of all the Gulf resolutions, which set out ceasefire terms, including the rapid surrender or elimination of Iraq's weapons of mass destruction and the imposition of a UN weapons-monitoring regime. Iraq accepted the terms, but for the past 12 years there have been disputes about whether it has lived up to them. Last November the Security Council passed Resolution 1441, deciding that “Iraq has been and remains in material breach” of all these resolutions.

The American and British governments maintain that Iraq's “material breach” revives the authorisation of force contained in 678, the resolution launching the first Gulf war. The ceasefire terms of Resolution 687, they say, suspended but did not terminate that authorisation of force. The same reasoning was used in 1993 and 1998 to justify the American and British bombing of Iraq after disputes about weapons inspections. This is why both governments have claimed for the past year that they did not need any further resolutions to justify an attack in law.

By their lights, Resolution 1441 was aimed at winning political, not legal, support. Nevertheless, 1441's confirmation that Iraq is in “material breach” of the ceasefire further strengthens their hand. The fact that Iraq has failed, in their view, to take this last chance to disarm constitutes yet another “material breach”, which the resolution specifically warns will lead to “serious consequences”. Ruth Wedgwood, professor of international law at America's Johns Hopkins University, claims that 687 set up a “perpetual post-war regime” whose breach by Iraq automatically suspends the 1991 ceasefire. “There is nothing in 1441,” she adds, “that purports to repeal it.”

Yet many international lawyers reject this analysis. Critics say that decisions on how to deal with Iraq's “material breach” of any resolution have always rested not with America or any other individual UN

member, but the Security Council itself. This is the view maintained by France, China and Russia. According to Vaughan Lowe, an international law professor at Oxford University, Resolutions 678 and 687 “were creatures of their time”. To claim that any member of the Gulf war coalition has the right in perpetuity to use force to restore peace in the Middle East, he says, “is just obviously absurd”.

Other lawyers point out that every resolution dealing with Iraq, from 687 setting up the ceasefire to last autumn's 1441, ends with a clause containing the phrase that the Security Council “decides to remain seized of the matter”—ie, in control of what happens next. They also say that it is no accident that no resolution, apart from 678 authorising the Gulf war, contains the phrase “all necessary means”, the accepted code for armed action. It was understood last autumn, they argue, that 1441 did not contain an automatic trigger for war, a point conceded by John Negroponte, America's UN ambassador, in the Security Council at the time it was passed, as well as by Britain's legal analysis.

Contradictory as it seems, Mr Bush has also repeatedly claimed that, whatever the Security Council decides, America has the right to attack Iraq in self-defence. But the UN Charter's Article 51 authorises military self-defence only “if an armed attack occurs”, not before one has taken place.

In an age of global terrorism and weapons of mass destruction, says the Bush administration, this rule is no longer good enough. Most lawyers believe that, even if Article 51 can be bent, an attack has to be imminent before any pre-emptive action is justified. So far not even Mr Blair has felt able to endorse either the American idea that Iraq is an imminent threat (as opposed to a longer-term one), or America's concept of pre-emption. Does every nation have the right to “pre-emptive” action, or just the United States? Mr Bush's security strategy is silent on this point.

It is not yet clear whether the United States is proposing to ditch the whole idea of international law, or merely to revise its rules. Many statements by Mr Bush and other senior American officials seem to indicate the former. And yet this week the president, in his joint press conference in the Azores with the British and Spanish leaders, made a startling promise: once victory in Iraq had been achieved, he would seek yet more Security Council resolutions to help rebuild the country.

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The United Nations

Duct tape needed

Mar 20th 2003
From The Economist print edition

America is dismissive of the UN. Other countries seem to like it more than ever

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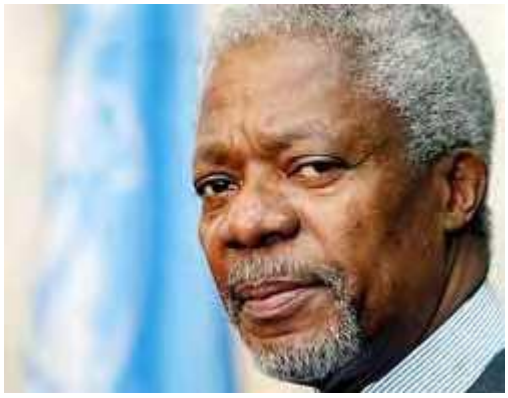

Not Annan's happiest days

IT WAS always clear that the first casualty of this war would be the United Nations, and so it has proved, but not quite in the way that seemed probable even a few weeks ago. The likelihood then was that America would get the approval of the UN to disarm Iraq by force, and critics would deplore that authorisation as one extracted by bribes and threats. The war would then have been judged legal but not legitimate by its many opponents.

No one can now accuse the UN of being America's rubber stamp. The charge against it instead is that it has passed a series of resolutions telling Saddam Hussein to disarm or else, yet, despite his failure to make more than grudging efforts to oblige, the “or else” turns out to be “or nothing”. Others who wish to defy the UN will take heart. Moreover, America, the world's only superpower, feels profoundly let down. Against the wishes of many members of his administration, George Bush chose to seek the UN's approval for the disarmament of Iraq. But after six months of argie-bargie and procrastination, he could count on no more than three of the Security Council's 14 other members to back a last resolution opening the way for war.

How did this extraordinary reverse come about? The short answer, for many people, is France. It is, however, an inadequate explanation. True, the French vow on March 10th to veto any new resolution “no matter what the circumstances” may have strengthened the resolve of some waverers, but it is implausible that it alone changed minds. A fuller explanation must acknowledge both America's inept diplomacy and wider issues.

Chief among these was the role of the United States. The debate at the UN became as much about constraining American power as about Iraq itself. France, ever uneasy about American “hyperpower”, has cast itself as the leader of those who would challenge America directly. Britain, whose aims have been remarkably similar, has adopted utterly different tactics: moderate the colossus, who doth bestride the newly narrow world, through the influence that comes with friendly loyalty.

At this stage in the story, neither the French nor the British seem to have done the UN a good turn. Britain helped persuade Mr Bush to go to the UN last September, which looked fine after the unanimous passage of Resolution 1441, but now looks awful. France is the popular champion of the constrainers but has failed to stop the war against Iraq and may have set America against the UN for a decade. The UN itself is plainly bruised. As its secretary-general, Kofi Annan, prophesied, the absence of Security Council authorisation has reduced the support for the war and called its legitimacy into question.

But the tale is not finished yet. The UN has retrospectively given a blessing of one kind or another to armed interventions before—in 1991 to the action in Liberia, in 1997 to that in Sierra Leone and, in June 1999, to NATO's fight in Kosovo. It is possible that something will yet be forthcoming to make this war look more respectable.

Not that America will turn its back on the UN altogether. “In a post-Saddam Iraq,” said Mr Bush after the Azores summit on March 16th, “the UN will definitely need to have a role.” In that, though, the relief agencies are likely to loom larger than the Security Council, which was probably the institution he had in mind when he said, more ominously, “We hope tomorrow the UN will do its job. If not, all of us need to

step back and try to figure out how to make the UN work better."

It may be difficult to reach agreement on that. The Iraqi episode has already shown that of the two principles at the heart of the UN charter—a dedication to non-violence by states and a commitment to collective action against those who threaten the international peace—the aversion to war is much the stronger. Most countries, it seems, are loth to sanction wars and loth to take action to stop them. Even when they do steel themselves for bloodshed, they can be selective: why should those who readily supported the illegal bombing of Belgrade now balk at the illegal bombing of Baghdad?

Because they are hypocrites, comes back one answer. Yet that ignores motives. Few people, other than those with ties of culture or religion, believed that NATO was bombing Belgrade for ignoble motives; the action might have been ill-judged, but the aim was plainly humanitarian. That has not so obviously been true of the war against Mr Hussein. In this war, the action may have good humanitarian consequences, but the aim has been much more confused. In such circumstances, the aversion to war comes to the fore.

In at least two respects, the opposition to this war has differed from the opposition to recent wars. First, much of it has been conducted at the UN. Second, much of it has concerned the role of the UN, from weapons inspectors to Security Council. As Robin Cook, the leader of Britain's House of Commons, said in his resignation speech on March 17th, "The evident importance we attach to a second resolution makes it all the more difficult now to proceed without one." He had a point.

This war is being fought without its approval, yet the UN does not, despite predictions, look irrelevant this week. On the contrary, it looks like an arena in which, among other things, many future efforts to constrain or steer American power will be played out. The UN will have to adapt. It will have to yield, on occasion, to America. But America cannot run the world on its own. If the UN did not exist, it would have to be invented. Today, as last time, much of the task would fall to America.

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The president at war

His father's shadow

Mar 20th 2003 | WASHINGTON, DC
From The Economist print edition

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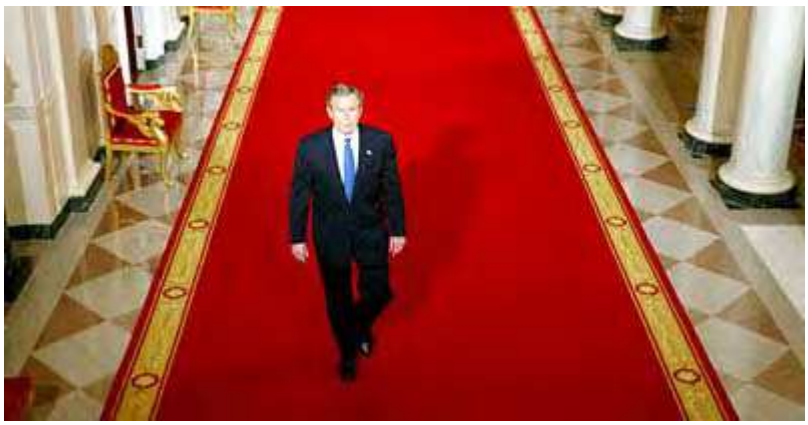

George Bush is going to war in Iraq in a much stronger position at home than abroad. In 1991, it was the other way round

IT WAS certain, after September 11th 2001, that Afghanistan would not be the only military campaign in the war against terror. The president's stress on states that sponsor terrorism, and on the threat posed by their acquisition of weapons of mass destruction, guaranteed that. It was also likely, if not certain, that Iraq would be the next target. Its connection with terrorists is a matter of dispute. But its pursuit of weapons of mass destruction made it hard for the president to ignore.

So, on the night of March 19th, Mr Bush went on national television to announce that the disarmament of Iraq had begun. In doing so, he abandoned the arguments he had been using to justify for months an attack. At the United Nations, he had said that Iraq should be disarmed to enforce Security Council resolutions. In a speech to a think-tank in Washington, he had suggested Saddam should be overthrown to spread democracy in the Middle East.

But now he restated the argument he first used after the attacks in New York and Washington: Iraq's pursuit of weapons of mass destruction, and the danger that Saddam might co-operate with terrorists to use them, constitute a threat to America itself. “We will meet that threat now,” he told the nation, “so that we do not have to meet it later...on the streets of our cities.” He had said almost exactly the same thing two days earlier, as he gave Mr Hussein a 48-hour ultimatium to leave Iraq. “The United States”, he said, “has the sovereign authority to use force in assuring its own national security.”

In other words, the president is justifying war with Iraq through the doctrine of pre-emption—the idea that preventive war is sometimes necessary in a world where terrorists can kill 3,000—or 300,000—people at a stroke. This claim, put forward last June in a speech to the military cadets at West Point, has been heard infrequently since. As America's UN diplomacy has failed, it has resurfaced. At his televised press conference about Iraq on March 6th, President Bush mentioned al-Qaeda five times.

The re-appearance of pre-emption as a justification for military action may deepen divisions between supporters and opponents of war (if that is possible). The doctrine of pre-emption probably scares more people outside America than almost any other Bush policy. So compared with his father on the eve of the first Gulf war, the son is entering conflict with fewer international allies.

The State Department has just published a list of 33 supporting countries, plus 15 that want to remain anonymous. But around 100 countries backed the first conflict. By chance, the Pew Global Attitudes Project, a respected international pollster, released a study this week of European opinion. It found

unprecedented levels of antagonism towards America. Big majorities view the country unfavourably: 84% in Turkey, 74% in Spain, 71% in Germany, 68% in Russia, 67% in France. Britain was the only place where a plurality liked America.

Yet at home Mr Bush's position is stronger than his father's was. Public support is rising fast as Americans rally round the flag. That happened before the first Gulf war. But six weeks before conflict, the difference was great: in December 1990, half of all Americans supported war; this February, the figure was two-thirds. This war is more popular.

And there has been less political division over it. Before the first Gulf war, Congress passed a resolution narrowly approving force along partisan lines (the vote was 52-47 in the Senate, 250-183 in the House of Representatives). Last October, the votes were 77-23 in the Senate, 296-133 in the House. All the Democratic presidential hopefuls voted in favour.

That does not mean Democrats will not criticise the president if the campaign goes less well than expected (and expectations of a swift war run high). But it may put the younger Mr Bush into a better political position than his father. The elder Bush's fate is a classic example of success in war bringing no benefit at election time. But the younger Bush starts from a stronger domestic position and has already shown, in the 2002 mid-term elections, that he can use national security as a vote-winner.

George Bush has often been described as a gambler—on taxes, on the mid-term vote, and on Iraq, the biggest gamble of his career (far greater than the war against the Taliban, which was forced upon him). This gamble could reshape not only the world, but America's domestic policy. But such a transformation may happen in different ways. On the world stage, repercussions will flow in part from the strength of opposition to the president's strategy. At home, they may well flow from the strength of his support.

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Where the troops come from

Don't mess with Texans

Mar 20th 2003 | ATLANTA
From The Economist print edition

Where the army gets its soldiers, and (oddly) the navy its sailors

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Small southern patriots

WHO are the young men and women now going to war? A look at where America's armed forces come from reveals the continuing variety of the country. Two states, Texas and Florida, account for nearly a quarter of the total: Texans alone make up 18% of the army. California (which provides 12% of the navy and 11% of the marines), New Jersey and Pennsylvania round out the top five states. In general, the navy gets a surprising number of recruits from the mid-west; the air force hails, on the whole, from the west, and from Alaska; marines come from all over.

Soldiers—the people who do the hard work on the ground—tend to come from the obvious places. The harder-jawed a region, the likelier it is to put its young into the army. The generally Republican, pro-gun south contributes a lot more soldiers than the Democratic north-east, both in absolute numbers and percentages of the regional population. A Texan is eight times more likely to be in uniform than a New Yorker.

The presence of military bases and arms-making firms also has an effect. Again, the south leads the way. Virginia has five army bases, Georgia four; Texas has eight air-force bases, Florida five, South Carolina and Georgia two each. Seven southern states have marines stationed on their soil, including at Camp Lejeune in North Carolina, Camp Albany in Georgia and Quantico, in Virginia. The arms-industry factor may help to explain why Washington state, which in politics leans to the Democrats but until recently was the home of Boeing, a huge defence contractor, offers many of its young people to the armed forces.

The number of troops a state provides is not always a clue to its political opinions: New Jersey's contribution, large for its size, has not prevented President Bush's approval-rating there from sinking back to pre-September 11th levels. But Mr Bush can take comfort from the fact that most of his men (and women) at arms come from, or are based in, friendly states, not least his own, almost-a-fifth-of-the-whole-army Texas. And he does not have to rely entirely on native-born Americans. The air force says it has more men born in Britain than in admittedly tiny Delaware.

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Budget wrangles

Costing a bomb

Mar 20th 2003 | WASHINGTON, DC
From The Economist print edition

Will the war redefine fiscal policy?

ACROSS the globe, George Bush's decision to invade Iraq is deemed a dramatic change in America's foreign policy. It may also prove a pivotal moment for America's fiscal policy. Not only will there be the price-tag for war and reconstruction, but the outcome will decide the course of Mr Bush's tax-cutting agenda.

The White House has consistently refused to give any official estimates of the likely budgetary cost of the war. But the word this week was that the administration would ask Congress for around $90 billion within days of the first bombs dropping. That would cover, it was said, the initial costs of a war (around $60 billion) as well as war-related aid—especially for Israel—and more money for anti-terrorist efforts at home. This would be more than the cost of the first Gulf war ($80 billion in today's dollars, but almost all of that was paid by others). It would also be higher than many in Washington expect. The Congressional Budget Office, for instance, recently put the costs of a month-long war closer to $30 billion. But as a one-off cost equivalent to under 1% of America's GDP, $90 billion is not a fiscal calamity.

No one, however, expects the spending impact of this war to stop there. Even if the military victory is quick, there is the cost of rebuilding Iraq and creating the democratic regime Mr Bush envisions there, as well as the costs of possible military action elsewhere—and never mind more money for homeland defence. Though Mr Bush has declared his “sustained commitment” to rebuilding Iraq and compared it to America's commitments in Japan and Germany after the second world war, the White House has stayed silent about the costs and who will meet them.

Private estimates, however, abound. A new report from a task-force on post-conflict Iraq, sponsored by the Council on Foreign Relations, says reconstruction could cost some $20 billion a year for several years. Another study, by Bill Nordhaus of Yale University, suggests a minimum of $30 billion—maybe up to $105 billion—for reconstruction and nation-building.

Numbers of this sort send shivers down the spines of many politicians, in both parties. Conservative Republicans, many of whom balked at the (comparatively small) costs of American involvement in Kosovo, are unlikely to cheer at long-term commitments in the Gulf. Robert Byrd, a tough top Democrat on the Senate Appropriations Committee, made it clear this week that he would ensure the administration does not get a “blank cheque to support grandiose plans for region-wide democracy”. Even those lawmakers who applaud Mr Bush's Iraq vision fret about its long-term impact on a budget that is already spilling red ink. They fret all the more because Mr Bush seems determined at the same time to push through tax cuts whose revenue implications make even the costs of post-war Iraq pale.

Mr Bush's “jobs and growth” package, unveiled in January, proposed $670 billion of tax cuts over ten years. His formal budget was even bolder: $1.3 trillion worth of tax cuts over the next decade, and no pretence at trying to balance the budget.

Despite a massive sales effort by Mr Bush's economic team, these tax-cut plans have hit trouble in recent weeks, particularly in the Senate. Most Democrats decried the proposals as budget-busting tax cuts that benefited the rich. But a number of Republicans were also dubious about the prudence of another big tax cut with the deficit growing and America about to go to war. The Congressional Budget Office now expects this year's budget deficit (excluding the costs of a war with Iraq) to hit $246 billion. Over the next decade, it claims, Mr Bush's budget would result in a deficit of $1.8 trillion—and that, too, before Iraq-related spending.

The tax-cut advocates were undeterred. Republican leaders in both the House and the Senate tried hard

to pass a “budget resolution” before the Iraq war started, to make room for Mr Bush's $670 billion tax cut. Once in the budget resolution, the individual parts of a tax cut would become filibuster-proof, needing only 50 votes rather than 60 to clear the Senate.

As *The Economist* went to press, the outcome of this political theatre was unclear. In the House of Representatives, top Republicans were pushing a plan that included Mr Bush's tax cut but was far tougher on spending, and included cuts in Medicare, the health-care plan for America's elderly. But with several moderate Republicans publicly opposing such cuts, it was unclear whether this could get the 218 votes needed to pass.

In the Senate, the Republican leadership was pushing a framework that looked more like Mr Bush's. But here, too, passage was uncertain. Four senators—two from each party—have vowed to support tax cuts of only $350 billion, half of what Mr Bush wants. Other senators are loth to support any tax cuts at all until the costs of an Iraq war become clearer.

A quick military victory would dramatically boost Mr Bush's political capital. If he uses that capital to insist on big tax cuts, the bandwagon will be hard for any budget hawks to resist. If the war goes badly, though, the immediate military costs may be higher, but the prospect of big tax cuts will fade too. That is why, paradoxically, a successful war may have bigger fiscal effects than a failed one.

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Executions

The needle paused

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Texas produces another case for doubt

MINUTES before the needle was due to go into the arm of Delma Banks last week, inserting into his system the cocktail of drugs that would kill him, the Supreme Court halted his execution in Texas to consider his latest appeal. Mr Banks was convicted of murder and robbery 23 years ago. But his trial seems to have been such a shambles that a team of former federal judges and prosecutors, led by William Sessions, an ex-director of the FBI, filed a brief with the Supreme Court maintaining that the prosecution suppressed evidence that would have exonerated Mr Banks, paid one hostile witness, and allegedly pressed another into committing perjury. They also claim that the defence lawyer was incompetent.

Mr Banks's case is not an isolated one. Next week the Supreme Court hears oral arguments in the case of Kevin Wiggins, who has been on death row since 1989. The case against Mr Wiggins, convicted of murdering and robbing a 77-year-old woman in Maryland, was so flimsy that at one stage a federal judge not only overturned his death sentence but threw out his murder conviction as well, concluding that “no rational finder of fact could have found Wiggins guilty of murder beyond a reasonable doubt.” Despite this, the prosecutors appealed and the Fourth Circuit court of appeals reinstated his conviction and death sentence, although the court's chief judge admitted that he could not “say with certainty” that Mr Wiggins had committed the murder.

The issue before the Supreme Court in both cases is not the guilt or innocence of these men—although there is clearly doubt that either is guilty—but whether the lawyers defending them were competent by the standards which the court set down in a 1984 ruling. In that ruling and subsequent ones, the Supreme Court has struggled to improve the nation's legal system to ensure that innocent people are not executed, as well as to stem the endless flow of death-row appeals that have weighed so heavily on the courts. The cases of Mr Banks and Mr Wiggins seem to indicate that those efforts have failed.

But that may be the wrong conclusion. Alarmed by the prospect of innocent people being executed, politicians have joined America's judges to try to improve the “machinery of death”, as one Supreme Court justice once called it. Their efforts may yet produce results.

The best-known example of this was the decision in January of the departing Republican governor of Illinois, George Ryan, to commute the death sentences of 167 death-row inmates to life imprisonment. This followed a three-year moratorium on executions in the state after 13 people awaiting execution had been exonerated. Mr Ryan's successor is keeping the moratorium in place until the state's death-penalty system can be overhauled. Maryland has imposed a moratorium on executions for the past two years. And this month Houston's mayor asked Texas's governor to declare a moratorium on 16 death-penalty cases after the local police department's crime lab was found to be so shoddy that it had to suspend DNA testing.

The understandable concern about miscarriages—107 death-row inmates have had to be released since 1973—masks the fact that, over the past few years, there has been a gradual improvement in the system. Many states now pay more for specialised public defenders in death-penalty cases. Many prosecutors have become more discriminating, calling for death only in the worst cases.

More states now have life sentences without parole as an alternative to the death penalty in murder cases, as well as a requirement that juries be told clearly that this is an option. When offered this choice, reports Richard Dieter of the Death Penalty Information Centre, more juries now seem to be choosing life sentences. The number of death sentences dropped by 50% between 1998 and 2001 and may have fallen still further in the past two years. And reform is continuing. New ideas have been floated, such as

imposing the death penalty only in cases where guilt can be determined to a higher standard than normal—beyond any, rather than just a reasonable, doubt.

Because most Americans still support the death penalty in principle, abolitionists have had little choice but to welcome reform, even if it means improving a system they oppose. But can reform alone avoid future cases like those of Mr Banks and Mr Wiggins? Mr Dieter does not think so. “As the death penalty becomes rarer, it will come to seem more arbitrary,” he says, “and mistakes will continue to be made.” By then, abolition may also appear more plausible to the public, and less controversial. In other words, if America ever abandons the death penalty, it is likelier to be with a whimper than a bang.

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Policing

Don't mention the war

Mar 20th 2003 | LOS ANGELES
From The Economist print edition

A delicate task for William Bratton in Los Angeles

AP

With shades like those, this can't be Manhattan

Get article background

HIS Boston vowels are flatter than the Valley floor that bakes beneath the Los Angeles sun. William Bratton, chief of the Los Angeles Police Department (LAPD) since October, could never be mistaken for a native. But as he sits in yet another church hall, in front of yet another audience of “activists” and “advocates”, reformed gang-members and nervous parents, the chief is listening hard, absorbing local lore. Angelenos are attracted by the hope of a safer city, but wary of the heavy hand that might impose it.

Mr Bratton brought a glowing reputation from the east coast. He licked crime in New York, where he was police commissioner from 1994 to 1996. Adopting the theories of sociologists who believe that small rents in the social fabric invite bigger crimes, he tackled petty disorder and “broken windows”. Violence, from murders down, dropped spectacularly.

Several things helped: a bigger budget and more policemen, a demographic dip in the number of young men, and the support of Rudolph Giuliani, the mayor at the time. Los Angeles offers few of these advantages, and several stiff challenges. The 9,000-strong LAPD is stretched far more thinly than New York's force. Its reputation for brutality—seared in the city's memory by the beating of Rodney King in 1991—and for corruption, most recently exposed in the trials of officers from an anti-gang unit that ran wild in the Rampart district, have left the LAPD bruised and loathed.

Mr Bratton's opening volley on gangs, which he sees as a greater scourge in LA than the Mafia was in New York, was therefore ill-judged. He declared “war”, promising to take back the streets. But to those who live where the gangs operate, the military language sounded all too familiar and likely to lead to familiar excesses. Even adapting “broken-windows” theory to LA by cracking down on graffiti, which often mark gang turf, sounded like a licence to hassle young blacks and Latinos.

But Mr Bratton is a more sophisticated politician than his predecessors, who recoiled in the face of criticism. He cultivates what he sees as his many constituencies, attending meetings, giving speeches and buttering up the rich at restaurants with the energy of a man running for office. In LA, where government is divided and many groups have a say in decisions, this skill is valuable. Mr Bratton spends time on the churches and neighbourhood organisations in gang-ridden areas such as South Central; when they told him that talk of “war” was not a good tactic, he quietly dropped it.

He has made friends in plusher neighbourhoods, too. The LA Police Foundation, a charity set up in 1998 to raise money for items not included in the police department budget, such as first-aid kits, raised about $200,000 last year. Mr Bratton has already drawn $300,000 in new donations from the likes of Eli Broad, a property developer and one of LA's richest patrons, and from Jeffrey Katzenberg and David Geffen, two of the men who run DreamWorks. Within months he hopes to have raised $2m, which will be spent on hiring consultants to work out how best to reorganise and reorder the department.

Mr Bratton also courts the press, for which he has provided a stream of stories. Within weeks of his arrival he had asked all senior police officers for letters describing themselves and proposing new ideas, and used these to guide a burst of promotions, reassignments and sackings. He has ordered detectives away from their desks and out into the field to solve crimes. He has dismissed as inadequate a half-complete, forgotten internal inquiry into the Rampart scandal, and demanded a fresh inquiry by outsiders.

Almost the only people immune from his wooing have been the producers of LA's abysmal television news. In February Mr Bratton asked them, publicly, not to keep broadcasting live coverage of car chases, watched by too many people hoping to see crashes and violence. (They get alerts to their pagers when a chase starts.) The police reckon that such coverage encourages show-offs to embark on wild escapades, and gives the impression of a city rife with crime. But the broadcasts go on.

One of the first jobs for Mr Bratton's consultants, in LA as in New York, will be to set up CompStat, a database that allows the police to analyse patterns of crime. Tom Hayden, a leftish Democrat who used to represent an LA seat in the state Senate, maintains that the city needs an independent log of statistics, rather than leaving the police to analyse the data and shape them as they like. Not all violence in gang neighbourhoods is gang violence, he argues, but it often gets reported that way to justify a more heavy-handed approach. Proposition 21, passed by California's voters in 2000, increases the penalties for various crimes if they are done by gangs; and California's three-strikes law, just upheld by the Supreme Court, is the harshest in America. Anyone caught spray-painting graffiti, if he does more than $400-worth of damage and it is his third felony, may now go to jail for 25 years.

Tough enforcement of these laws might remove gang-members from the streets and cut the crime figures; but it would also increase the strain on California's prison system, where gangs flourish and where many small-time troublemakers are hardened into villains. If Mr Bratton is to win the approval of LA's honest citizens, he will have to teach his officers the lesson he learned himself—less war and more jaw.

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Lexington

The snags of multilateralism

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The time for diplomacy is over, as Colin Powell said. Lessons can be learned from its demise

TRYING to do it through the United Nations has failed. During the coming days, and maybe weeks, the only thing that matters will be how the war goes. Little point, it might seem, in asking why America's attempt to get a second UN resolution in support of an attack on Saddam Hussein ended as it did. Yet the answer matters, not just for the light it casts on diplomacy at an uncommonly tense moment but for the future of transatlantic ties and certainly the UN itself.

For some people, America's failure sprang fully-formed from the Bush administration's indifference to the international rules of polite society. Critics have complained since the administration took office that it was unnecessarily alienating allies and that, at some point, it would pay a price. The administration replied: What price? We are powerful enough to lead. Others will follow. But the Iraq debate shows that this is not always true.

The perceptions of arrogance made America's job at the UN harder. But “American unilateralism” cannot be the whole story, for a simple reason: it did not stop Colin Powell, the secretary of state, winning the Security Council's unanimous approval of Resolution 1441. True, this did not remove American scepticism about other multilateral institutions—the International Criminal Court, for instance. Nor did it mark a permanent shift in the administration's balance between hawks and doves: Vice-President Dick Cheney remained dubious all along.

Nevertheless, on the specific issue of Iraq, President Bush's speech to the UN on September 12th, and the diplomacy that culminated in Resolution 1441, represented a serious attempt to pursue American aims through the Security Council. The president couched his case against Saddam in terms of international law: he argued that the UN, for its own credibility, needed to enforce resolutions as well as pass them.

So what went wrong? One school of thought says that going the UN way was bound to fail because America and France had fundamentally different objectives. There is something to this. France seemed to treat the Iraq issue chiefly as part of a wider argument about the need to restrain American power. It claimed it was open to negotiation, but made no attempt to negotiate its difference with America. It rejected the suggested second resolution even before Iraq did.

But, however irresponsible the French were, this does not explain why America could not get a majority in the Security Council for a second resolution, even if this might have proved subject to an “unreasonable” French veto. It is this narrower failure that is the real charge against the administration.

America has zigged and zagged about a second resolution. On January 31st Mr Bush said he did not need one. On February 24th he joined Britain and Spain in proposing one. In early March American officials were saying they opposed the idea of new “benchmarks”. On March 12th Ari Fleischer, the White House press secretary, said “the president very much appreciated the United Kingdom's benchmarks.” At a press conference on March 6th Mr Bush said America would demand a vote on a second resolution because “it's time for people to show their cards.” On March 17th America, Britain and Spain pulled away from a second resolution, without a vote.

This mess was the result of a twofold failure: not persuading Russia to abstain, and not persuading the six undecided members of the Security Council to vote for a resolution.

Russia should have been persuadable. Friendship with America is a pillar of President Vladimir Putin's foreign policy. His opposition was never as absolute as Jacques Chirac's. Yet, after an opening burst of activity, American diplomacy flopped. Mr Powell did not even go to Moscow. The contrast with the first Gulf war is sharp. In the months before it started, the then secretary of state, James Baker, made 41 international visits.

America might also have persuaded the six undecided members. For most of them, the UN is their main instrument for engaging with the world. They were not opposed to a second resolution, but did not want to be forced into choosing between America and “the international community”. Several said they would have been willing to back a compromise, with precise demands on Saddam and a longer timetable. Had such a proposal been made earlier, it might have worked. Canada floated the idea in February. The administration called it a non-starter.

Not a disaster, just a pity

None of this means that going the UN route was a total failure. Resolution 1441 stands. Messrs Bush and Blair tried to get international backing, with some success—outside the Security Council. America's position is stronger than it would have been had Mr Bush followed Mr Cheney's advice and ignored the UN.

Nor does it mean that America will now turn its back on the UN, even though in the matter of France the accumulated poison will surely linger in the American bloodstream. At some point, the administration may well think about changes to the structure of the Security Council to weaken the power of permanent veto-holders such as France. When it does, it will remember that the council helps it protect one of its friends, Israel. And the UN, at least as a “service organisation”, could be a useful means of helping to rebuild Iraq.

That said, America is going to war without the really broad coalition it wanted. It will fight in the face of implicit Security Council opposition, because that second resolution would not have passed. To be sure, no one can be certain that better diplomacy would have produced a better result. The French might still have vetoed everything. But it would have left America looking a lot better. Instead, Mr Bush is left with the hope that war itself, by demonstrating Saddam's crimes, will provide the justification that eluded America's diplomats at the UN.

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Argentina's presidential election

Hard times, same old politics

Mar 20th 2003 | BUENOS AIRES
From The Economist print edition

Reuters

The campaign for a wide-open election reveals more continuity, personified by Carlos Menem (above), than change. Unfortunately

Get article background

AT FIRST glance, Buenos Aires still looks like an opulent European city, its well-dressed citizens hurrying to work in the late-summer sunshine along streets still lined with boutiques and bookshops. Yet the new Argentina is not hard to find. Each evening at dusk, the streets are invaded by well-organised armies of gleaners, who spread the city's rubbish out on the pavements and sort through it for neglected treasures. Drive 45 minutes or so out into the city's rustbelt, and Argentina's new poverty is all around.

In El Tambo, a poor district of La Matanza, a sprawling formerly-industrial suburb of 1.3m, community leaders say that some 80% of adults lack formal jobs. In the health post, a couple of bare rooms with a broken computer, the consequences are starting to show. “We can't say that malnutrition is common. But 12-15% of the children we see are below the normal weight for their height, and there are some acute and chronic cases,” says Rubén Falconi, a doctor at the post.

It is 14 months since Argentina declared a debt default and devalued the peso. Since the middle of last year, the interim government of President Eduardo Duhalde has managed to halt the economy's free fall. There are now incipient signs of recovery. Roberto Lavagna, the economy minister, reckons that GDP could expand by 4% this year. But living standards have crashed. Unemployment stands at 18%, while real wages fell by up to 40% last year. Some 58.5% of Argentines, or 22m people, now live in poverty (defined as a monthly income of less than 750 pesos [$242] for a family of four), compared with 38.5% in December 2001; 28% are in extreme poverty, double the figure of a year ago.

This newly-impoverished country is due to vote for a new president on April 27th. One might expect the election to produce radical change. A year or so ago, an angry middle class, furious that their dollar savings had been turned into devalued pesos, made common cause with the *piqueteros*, protesters from the unemployed underclass of places like El Tambo. What they seemed to have in common was a hatred of all politicians, summed up in the chant *Que se vayan todos!* (Kick them all out!). In December 2001, street protests had helped to kick out first President Fernando de la Rua, who resigned, and then Adolfo Rodríguez Saá, whom Congress appointed as a caretaker. The traditional parties, the populist Peronists and Mr de la Rua's middle-class Radicals, who between them had dominated Argentine politics for half a

century, were dead, it was confidently asserted.

Not quite. Argentines have now turned their backs on insurrection—the divided *piquetero* movement is no longer very popular. Most people say they will vote, even if they are not enthusiastic. (“There's always a less-bad candidate,” says Dr Falconi.) And the traditional parties still dominate. But like protozoa, they have multiplied by fission. The opinion polls show no candidate with support of more than 20%, but five with more than 10%. Three of these are Peronists, and two are former Radicals.

With only five weeks to go, much is thus uncertain about the election. But the pundits say two things are probable: that the winner will be a Peronist, and that, for the first time, Argentina will have a run-off ballot. This run-off might well be between two Peronists: Néstor Kirchner, the governor of a Patagonian province who has Mr Duhalde's backing, and Carlos Menem, Argentina's president from 1989-99. Broadly speaking, that would be a contest between centre-left and centre-right. Even so, to many outsiders, it would seem inconceivable. After all, Mr Menem's second government paved the way to the collapse with its fiscal irresponsibility and his rule was tainted by corruption scandals. And Mr Duhalde's mishandling of the devaluation did much to increase its costs.

In fact, there are a few more signs of political renewal than such an outcome might suggest. On the right, Ricardo López Murphy, a liberal economist and former Radical minister, has founded a new party. He argues that the next government should offer better emergency help to the poor, but not promise other things for which it lacks resources. Rather than ideology, he stresses “rules and institutions”, both of which Argentina has lacked. He has climbed to 10% in the polls, but lacks money. That is going to Mr Menem. But Mr López looks to have a political future.

On the left, some of the neighbourhood assemblies that flourished during last year's protests have survived, as the germ of a new civic movement. And some of the *piqueteros* plan to launch a new party, taking Brazil's Workers' Party as its model. Elisa Carrió, another former Radical, also fancies that she might emulate Brazil's Lula.

But instead of Lula, Argentina has Peronism. Many Argentines revere the movement's founders, Colonel Juan Domingo Perón and his wife Evita. “There is still a powerful Peronist subculture among the poor”, argues Jose Nun, a political scientist at San Martín University. Many have photos of Evita in their homes and consider her a saint. Peronism is a movement that has always valued leadership rather than ideas. It has nonetheless suffered a devastating split. Since the late 1990s, the rivalry between Mr Menem and Mr Duhalde has rent Peronism asunder. This year, for the first time, the Peronists have failed to unite behind a single candidate. As well as Mr Menem and Mr Kirchner, there is a third Peronist candidate, Mr Rodríguez Saá, a provincial governor with the smile and some of the fascist notions of Perón himself. There are fears that this internecine rivalry could result in electoral violence and fraud.

Paradoxically, economic collapse has extended Peronism's lease on Argentina's political life. After military dictatorship ended in 1983, many Argentines hoped that their country was moving towards a modern democracy. But as Rosendo Fraga, a political analyst, points out, old-fashioned methods of political control have returned. Mr Duhalde has restored social order with a programme of hand-outs, under which 2.4m families, or 18% of the labour force, get a payment of 150 pesos per month, as well as some free food. It is badly targeted, but it has calmed the streets; the *piqueteros* now administer the programme in places like El Tambo.

Mr Menem, too, is focusing his campaign on the new poor: at his rallies, he promises to end hunger, and reminds his audience that they lived better when he was president. He no longer argues that Argentina should adopt the dollar, but would align himself with the United States and local businessmen. Mr Kirchner is more interventionist, but not much. Aides say he would cancel the contracts of some of the privatised utilities (especially railway companies), and recover a “golden share” in the state oil company.

Even if the next government is broadly populist, it will lack the money for statist experiments, as Mr Duhalde has found. If it is to turn incipient stability into economic recovery, it will have to renegotiate, and resume paying, the public debt. Mr Duhalde has avoided doing anything that might make him even more unpopular. His successor will lack that option. Over the next few months, Argentina's old politics faces new tests.

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Brazil's economy

Palocci's potion

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Painful remedies start to pay off

Get article background

ANTÔNIO PALOCCI, Brazil's finance minister, is on his way to acquiring the aura of infallibility that surrounds the most successful members of his guild. Since an election last October brought to power the leftist Workers' Party (PT), which has a history of anti-market sloganeering, Mr Palocci has worked to reassure sceptics that Brazil would pay its debts, curb its budget deficits and tame inflation. He seems to be succeeding. Brazil's currency, the *real*, has appreciated (see chart). The risk premium that investors demand for holding Brazilian debt has dropped from nearly 20 percentage points in October to just above ten now. Mr Palocci "is doing impeccable work," says Octavio de Barros, of BBVA Banco in São Paulo. That will last, Mr de Barros thinks, as long as Brazil's new president, Luiz Inácio Lula da Silva, backs his minister.

This backing seems likely to continue. Mr Palocci, a medical doctor, is inflicting pain. But his approach is paying off. With his blessing, the central bank has twice increased its benchmark interest rate this year, to 26.5%. That has helped to boost the *real*, and started to curb a dangerous spike in inflation. Consumer prices rose by 1.57% in February, about 0.7 percentage points less than in January.

Inflation is still way above the central bank's (upwardly revised) target for this year of 8.5%. Some analysts argue that the bank should raise rates again, to kill inflation quickly. But on March 19th, its monetary-policy committee opted to leave rates unchanged, though with an "upward bias". The bank presumably reckons that its medicine is already working.

Mr Palocci was also quick to tighten fiscal policy. He has thus managed, so far, to insulate Brazil from nerves about war in Iraq. In that, he has been aided by an extraordinary turnaround in the balance of payments, helped by the *real*'s devaluation last year. The current-account deficit was just $7.9 billion (or 1.8% of GDP) last year, down from $23.2 billion (4.6% of GDP) in 2001. So Brazil needs to borrow less from international markets. Combined with Mr Palocci's policies, this has made investors less nervous. So external debt can be rolled over more cheaply, and Brazil may soon be able to issue new bonds in the international market.

All of this, plus planned reforms of pensions, taxes and bankruptcy procedures, should eventually deliver a virtuous circle of lower inflation and interest rates, higher growth, more jobs and thus more government spending to alleviate poverty. Sadly, the pay-off is not immediate. The government forecasts growth of 2.8% this year; many forecasts by private economists are lower.

The lag is already eroding the popularity that Lula depends upon to push through reforms. According to one poll, respondents who rate his government as "good" or "very good" dropped from 57% in January to 45% in March. But Lula still remains very popular—and more so than his government. His critics on his party's left-wing regard this as early proof that the government's orthodox economic policies are failing. There is muttering in Brasília, the capital, about a "Plan B", which would abandon Mr Palocci's rigours.

Lula and the bulk of the Workers' Party are keeping their nerve. At a meeting last weekend, the party's 79-member national directorate defended Mr Palocci's policy of tight budgets and high interest rates. It

also endorsed, with some qualifications, pension and tax reforms which are crucial to sustaining investor optimism. But those measures, which must survive public debate and congressional veto, are only partly in Mr Palocci's capable hands.

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Cuba and the United States

Crackdown

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An American envoy tugs Castro's beard

Get article background

IN SOME ways, relations between communist Cuba and the United States are closer than at any time in four decades. Under a new loophole in the United States' trade embargo, American companies last year exported to Cuba food worth $138m. Many in the American Congress would like to loosen the embargo further. The Bush administration would not. Now, deliberately or not, American diplomats have provoked President Fidel Castro into an unusually severe crackdown against dissidents.

This week, police arrested more than 20 activists, and charged them with conspiring with the United States. The swoop followed fierce government criticism of James Cason, who heads the United States' Interests Section in Havana. Since taking up his post last September, Mr Cason has opened his offices and his home to Mr Castro's illegal but quasi-tolerated opponents. He has attended dissidents' meetings across the country, hailing them as Cuba's future leaders.

A rattled Mr Castro called Mr Cason a “bully with diplomatic immunity”, and threatened to close the American mission. Many expected him to carry out this threat, or expel Mr Cason. Instead, he imposed travel restrictions on American diplomats. The crackdown was also carefully calibrated: those arrested were mainly independent journalists; the best-known dissidents remain free.

The State Department called the arrests an “outrage”. They will be deplored by Cuba's main economic partners in Europe and Canada, as well as in the United States' Congress. That Cuba's ageing dictator is willing to risk their ire shows just how worried he has become as the economy deteriorates and more and more Cubans demand change.

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Bolivia's democracy

Rescued, for now

Mar 20th 2003 | LA PAZ
From The Economist print edition

Outsiders have rallied to save the government

Get article background

TIME was when Bolivia was poor but progressing. After democracy was restored in 1982, reform and steady economic growth followed. Then came recession, thanks to neighbours' woes and an American-backed drive against the coca leaf. Even so, an explosion of violence and looting last month which almost toppled President Gonzalo Sánchez de Lozada just six months into his term, came as a profound shock. It has prompted much heart-searching over the future of democracy in Bolivia—and some efforts to help.

The public finances were one factor behind the violence, in which 31 died as soldiers exchanged fire with striking policemen in the centre of La Paz, the capital. The IMF wanted the government to cut its deficit from 8.6% of GDP last year to 5.5%: this involved a freeze in public-sector pay and an unpopular income tax. The IMF has quickly agreed to soften the target, to 6.5%. The gap will be plugged with $100m in loans from the World Bank and the Andean Development Corporation. The United States has offered an extra $14m in aid.

The violence also exposed the weakness of the political grip of Mr Sánchez, a businessman and a successful president of Bolivia from 1993-97. Though he won only 22.5% in last year's election, he seemed to have put together a solid coalition. But he lacks capable political advisers. Above all, he faces some rough opponents.

Mr Sánchez claims that behind police discontent lay “a carefully thought-out plan to change the democratic system”—including an attempt to kill him. He has invited the Organisation of American States to investigate. Discontent within the army is also growing. It is called out to handle protests fairly often, but feels otherwise ignored. “The day is getting closer when they will call us and we won't come,” says an officer.

Bolivia has never been short of social grievance, but for two decades this was channelled democratically. Will that continue? Manfred Reyes, a former army captain with links to the barracks, insists that fraud denied him victory in the presidential election (he won 20.9%); he is still embittered and, some say, indebted. Evo Morales, who came second, is trying to marry coca farmers with hard-left union and Indian farmers' leaders. The illegal-drug industry waits in the wings.

Ordinary Bolivians are bitterly opposed to foreign investment in the country's natural resources. That dates back to Spanish colonial exploitation of the fabulous Potosí silver mine. So Bolivia remains dependent on foreign aid, while it sits on bounteous undeveloped wealth. An ambitious natural-gas project could almost double Bolivia's legal exports. But Mr Morales, who offers few policy alternatives, is preparing to call his troops on to the streets against it. Bolivians should enjoy their democracy while they still can.

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El Salvador's election

Guerrillas out of the mist

Mar 20th 2003 | SAN SALVADOR
From The Economist print edition

A half-hearted swing to the left

EPA

Red mayor, red president? Or maybe not

EVER since 1989, when the country was still in the midst of a civil war, El Salvador's government has been in the hands of the conservative Nationalist Republican Alliance (Arena). Might that dominance be drawing to a close? So it might seem on the evidence of an election on March 16th for the country's 84-seat Congress and 262 municipalities. This saw gains for Arena's opponents in the civil war, the former guerrillas of the leftist Farabundo Martí National Liberation Front (FMLN).

Thanks in part to Arena's free-market reforms, El Salvador's economy has performed better than those of most of its neighbours, despite the civil war and two dreadful earthquakes in 2001. But the FMLN's enduring strength testifies to the belief of many Salvadoreans that they have yet to feel much benefit from the reforms. For example, popular support for a six-month strike by doctors, protesting against the feared privatisation of the National Social Security Institute, seemed to hurt Arena.

The FMLN's chief electoral prize was to retain the job of mayor of San Salvador. The incumbent, Héctor Silva, had left the party, fed up with infighting. Arena fielded a strong candidate, Evelyn Jacir de Lovo, a former education minister. But she was roundly defeated by Carlos Rivas Zamora, a little-known FMLN lawyer. In Congress, the FMLN recouped six seats that it had lost when moderates defected from it. But Arena, with allies, will retain a slim legislative majority.

Will it also retain the presidency in a year's time? Noting that it gained a larger share of the popular vote than Arena, the FMLN is hopeful. But only 40% of the electorate turned out. That points less to enthusiasm for the left than disillusion with politics. And while Salvadoreans may be happy for the Front to run their town halls, they may be more reluctant to put it in charge of the economy.

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China

The survivor takes over

Mar 20th 2003 | BEIJING
From The Economist print edition

China's new prime minister, once a protégé of China's disgraced reformist, Zhao Ziyang, shows few signs of seeking to rock the boat

Get article background

THE new prime minister, Wen Jiabao, cannot be faulted on his grasp of the facts. He unflinchingly lists corruption, poverty, inefficient state enterprises, unemployment and non-performing loans as among his, and China's, “many problems”. But he has given few clues as to how he plans to change things. On March 16th, Mr Wen took over from Zhu Rongji as manager of a fast-growing but structurally weak economy that is generating growing social tension. One of his biggest problems could be his own risk-averse style.

Unlike Mr Zhu, who had extensive dealings with foreign business and political leaders before taking over as prime minister in 1998, Mr Wen comes to the job as something of an enigma to outsiders. Whereas Mr Zhu honed his leadership skills as mayor of Shanghai, China's financial capital, Mr Wen has risen to the top through service in much lowlier posts, including 14 years in the impoverished province of Gansu. From the late 1980s, he worked as chief of staff to successive general secretaries of the Communist Party. It was only in 1998, when he became Mr Zhu's deputy, that he began assuming a more prominent role in helping to run the economy, particularly agricultural and financial affairs.

Mr Wen, a geologist by training, is certainly a man of considerable skills, not least as a political survivor. He emerged unscathed from the purges that followed the suppression of the Tiananmen Square protests of 1989—even though he was a top aide to Zhao Ziyang, the liberal-minded party chief who lost his job and is still under house arrest for allegedly supporting the demonstrators. One of the best known photographs (see above) from the Tiananmen days shows Mr Zhao and, behind him, Mr Wen visiting students on the square. At a news conference two days after his appointment, Mr Wen evaded a question about Mr Zhao's circumstances. China's “great achievements” in the past 13 years, he said, showed that “stability is of critical importance”.

Mr Wen survived by quickly switching his allegiance. His abilities as a manager endeared him to Mr Zhu, who became his new patron. Unlike the fiery Mr Zhu, Mr Wen was adept at consensus-building. At his news conference, Mr Wen noted that people called him “mild-mannered” but insisted that “at the same time, I am someone who has convictions, definite views and who dares take responsibility.”

But while acknowledging the mountain of bad loans in China's banking system and the slow development of the rural economy, Mr Wen stuck mainly to generalities (if he follows the practice of his predecessors, he will not face reporters for another year). One of Mr Wen's main aims appeared to be to impress his audience with his nationalist credentials, scholarly inclinations (he peppered his remarks with poetry), his humble origins and his sympathy with the plight of the rural poor and urban unemployed. But he vouchsafed no new ideas for addressing their problems.

Chinese familiar with Mr Wen's circle describe him as a good administrator but lacking originality. Like China's party chief, Hu Jintao (who acquired the additional title of state president on March 15th), he will in practice have to defer to Jiang Zemin, the country's paramount leader who retains the post of chairman of the Central Military Commission (in other words, supreme military commander). Even if he has bold plans for implementing the painful measures needed to complete China's transition to a market economy, he is likely to wait until he has consolidated his position before revealing them. But Mr Wen risks storing up even bigger problems if he delays difficult steps such as recapitalising and privatising the technically insolvent state-owned banks, and reining in the budget deficit.

Some promising hints of economic reform did emerge from the just-completed annual session of China's parliament, the National People's Congress (NPC), at which Mr Wen's and Mr Hu's new appointments were announced (other leadership changes it approved included Zeng Qinghong as vice-president, Wu Bangguo as NPC chief and Li Zhaoxing as foreign minister). The NPC announced the long-overdue establishment of a regulatory body to supervise the banks and of a commission to oversee the management of state assets. By clarifying central and local government responsibilities for state assets, the new commission could make it easier to privatise and merge them.

But stability remains the party's watchword. Mr Wen used the word a dozen times in his news conference. His obvious reluctance even to mention Zhao Ziyang's name suggests the party is still fearful of reopening the wounds of Tiananmen (indeed, the reporter's question about Mr Zhao was removed from official transcripts). Last week, the authorities shut down a newspaper in the southern city of Guangzhou, *21st Century World Herald*, for publishing an interview with a former secretary of Mao Zedong who lamented the slow pace of political reform. But many lower-ranking officials say privately that the party's obsession with stability is hindering the implementation of badly needed political changes. Another paper gave warning earlier this month of a “Latin American-style crisis” in China unless more effective checks on government power are introduced.

Ironically, under Mr Zhao's guidance, Mr Wen once helped draft the party's boldest appeal for political reform, although the aim was only to limit party interference in government affairs rather than to relax the ban on political opposition. The proposals were adopted at the Communist Party's 13th congress in 1987—but then quietly forgotten after Tiananmen. If Mr Wen retains any of his former enthusiasm for political change, it remains as carefully hidden from view as Mr Zhao himself.

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Pakistan's economy

War hero

Mar 20th 2003 | ISLAMABAD
From The Economist print edition

Fine macroeconomic framework. Shame about the geopolitics

Get article background

AS A front-line state in America's war in Afghanistan, Pakistan has reaped plentiful economic benefits. On March 19th, a report from the International Monetary Fund gave the government top marks for meeting the Fund's performance criteria, and reconfirmed the positive macroeconomic outlook. But clouds from the Gulf are already casting shadows. Having thrived in one war, Pakistan's economy may be a casualty of the next.

Pakistani officials and the Fund are at pains to stress that its relatively sound economy cannot be put down entirely to the war on terror. The government installed after the coup staged by General Pervez Musharraf in 1999 had already embarked on a programme of structural adjustment. It has trimmed the bloated civil service, cut subsidies on energy prices, cleaned up the balance sheets of nationalised banks, raised tax revenues and accelerated a privatisation process.

The war, however, surely helped. American gratitude for Pakistan's assistance brought a grant of $600m. A big boost in itself, that also smoothed negotiations with other foreign creditors, who accorded a generous debt rescheduling. It helped swell the size of the IMF's own $1.4 billion facility, signed in December 2001. Meanwhile, expatriate Pakistanis, nervous that their businesses might no longer be safe in the West, started sending money home. As a result, Pakistan's traditional capital flight reversed itself.

That, combined with a surge in remittances from overseas workers, healthy export growth and an increase in foreign investment and aid, has brought a steady currency, a current-account surplus, and foreign-exchange reserves of $10 billion, more than double their level in 2001. Inflation is subdued, and after the best rainfall for four years the economy is expected to have grown by 4.5% in the current financial year (ending in June), a creditable achievement in a weak global economy.

Nobody, however, pretends that growth is fast enough, or that the government's economic reforms are more than half-done. Many Pakistanis, for example, would still no more think of paying for electricity than they would of metering sunlight. The power utilities are a huge drain on the public purse.

Privatising them, and other government businesses, however, is hard, as is attracting other investment. The biggest obstacle remains political instability. General Musharraf's attempt to give his regime a civilian gloss by handing over to an elected government has resulted in a constitutional quagmire. Add to this persistent violence, including occasional attacks on foreigners, and a continued stand-off with India, a fellow nuclear power, and it is hard to describe the investment climate in Pakistan as hospitable.

War in the Gulf will make it even more hostile. Pakistan's government has managed to steer a careful diplomatic course. In contrast to its support for the attack on Afghanistan's Taliban regime, it has refused to endorse the Iraq war, though without antagonising America. Pakistani diplomats last week could scarcely conceal their relief that they never had to vote on a final UN resolution on Iraq.

This time, the government is not in direct conflict with the views of Pakistan's extreme Islamist parties. So, as they take to the streets to condemn the war, and scream their support for Saddam Hussein and Osama bin Laden, their anger will be directed less at their own government than at the West in general

and America in particular. Even so, that is hardly very good for foreign investment.

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India

Government by computer

Mar 20th 2003 | HYDERABAD
From The Economist print edition

But some say drinking water should come first

EPA

Mice take no bribes

HAS Chandrababu Naidu, the chief minister of Andhra Pradesh, got his priorities right? Opposition politicians in the Indian state think not: this month two of them staged a hunger strike, complaining that his government was failing to provide drinkable water to 600 villages in Nalgonda district, just 100km (60 miles) from Hyderabad, the state capital. Mr Naidu, say his critics, is less interested in such basics of survival than in gimmickry.

It is true that a big screen is mounted on Mr Naidu's office wall, to monitor activities at 28 “eSeva” centres in Hyderabad, where citizens can pay utility bills, register births and deaths, and conduct many other dealings with the government. So is the man who runs a poor, drought-ridden state, where 40% of the 76m people cannot read, preoccupied with an irrelevant exercise in e-government? Mr Naidu's fans say the exercise is a bold experiment with national implications: harnessing India's prowess in information technology to benefit its poor. Other state governments have put some of their services online. None has gone so far as Andhra Pradesh.

The eSeva centres typically consist of a dozen counters where clerks at computer terminals can complete, online and quickly, any of a menu of 32 transactions with the government. Customers, spared several visits to government offices, where queues grow like weeds, are enthusiastic. At present, about 600,000 households a month already use the service, launched 18 months ago, in a city of 6m people. The centres are partnerships between the government and private firms, which provide the hardware in return for transaction fees. The government supplies the staff.

Thanks to the scheme, the government is cutting staff (through natural attrition, so far). But for Mr Naidu and his admirers the main goals are “transparency, accountability and speediness”, and to “reduce the interface” between government and citizenry. This puzzling phrase recognises a sad truth: where public and government meet, corruption plays gooseberry. Not only do computers rarely solicit bribes but they make corruption more difficult by, for example, making tender documents readily available.

All very well, say the critics: but what about the countryside? Mr Naidu is about to find out, as eSeva centres are opened across Andhra Pradesh. He expects the World Bank to provide $55m towards his plans. The obstacles are obvious: illiteracy, and the shortage of internet connections and electricity. Mr Naidu remains resolutely optimistic. Soon, he believes, every village will have a connection. In fact, one village went online in a blaze of publicity in January. It was a project of CyberGrameen, a non-profit organisation set up by Krishna Prasad Tripuraneni, a telecoms entrepreneur in Chennai, and uses wireless technology to offer digital entertainment, distance learning, tele-medicine and government services.

There are other ideas, such as basing terminals in schools or post offices. All face perhaps their biggest hurdle in finding the people to man the computers. Chris Hoban of the World Bank in Delhi thinks even that may not be insuperable. There are many 18-year-olds with 10-12 years' schooling but no regular job.

The chief minister wants to form a consortium providing e-government expertise elsewhere. But Mr Tripuraneni is doubtful about Mr Naidu's hopes of achieving all his goals even in his home state. “The problem in India”, he says, “is that the good officers never have time.”

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East Timor

Freedom's disappointments

Mar 20th 2003 | DILI
From The Economist print edition

Riots and incursions mar nation-building

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INDEPENDENCE has turned out to be a bittersweet pill for East Timor. After anti-government riots last year, the country has now been hit by a wave of militia incursions from West Timor, which is still part of Indonesia. With the United Nations' support mission due to leave next year, there is a growing danger that this experiment in UN nation-building could end up an embarrassing mess.

The attacks from West Timor are believed to have been carried out by East Timorese. Some 30,000 East Timorese remain there, most with links to Indonesia, including militiamen wanted for crimes committed in 1999, when the East was still in Indonesian hands. The UN is in charge of national defence until it hands over to a locally-run defence force, but it has had no international staff in West Timor since three of its officials were murdered there in 2000. However, its staff have gathered evidence against militiamen who committed crimes in East Timor and identifying their sponsors in the Indonesian army.

A new problem is the growth of a quasi-religious organisation called Colimau 2000, which operates in the border area. Its creed is a mixture of Timorese animism and Roman Catholicism. There are fears that militiamen crossing the porous border from East Timor may infiltrate it.

President Xanana Gusmão and his government are more concerned with domestic matters. Most East Timorese are still eking out a living as subsistence farmers, disappointed with the meagre fruits of independence. The ruling Fretilin party has lost some of the glamour that brought it election victory in 2001. Its intentions are suspect. Opposition politicians believe it wants to establish a one-party state. Mari Alkatiri, the prime minister, said recently that Fretilin could be in power for 50 years.

Mr Alkatiri is not at all popular. Some of his properties were destroyed in rioting in Dili in December. His family, of Yemeni origin, owns substantial amounts of land around Dili. He is in the ascendant within Fretilin, but the party itself is divided. It includes moderates whose views are close to those of the opposition. There is also a small but influential faction tied to Rogerio Lobato, minister of internal administration, who before independence spent much time in Angola, where he once went to jail for diamond smuggling.

As president, Mr Gusmão has been a stabilising influence so far. Before independence, Fretilin pushed through a constitution with a division of powers between president and prime minister. Everyone knew that Mr Gusmão would win the presidency and cynics say the aim was simply to curtail his power. Mr Gusmão is resented by hardliners in Fretilin for steering the party away from Marxist dogma. But he is formally commander-in-chief of the army and all the senior officers have personal ties of allegiance to him.

With much bad blood from the past, a weak economy and the militias over the border poised to make trouble, many people are wondering whether there could be a new civil war. Mario Carrascalão, who was governor of East Timor for ten years under Indonesia, thinks probably not. These days, in poverty-stricken East Timor, there are simply not enough weapons about to have a civil war.

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Myanmar

Deadlocked

Mar 20th 2003 | YANGON
From The Economist print edition

Talks with the junta are going nowhere

Get article background

Reuters

Not much to smile about these days

THE head office of the National League for Democracy (NLD) certainly looks busier than it did last May, before Myanmar's military junta released Aung San Suu Kyi, the party leader, from house arrest. Activists bustle backwards and forwards brandishing sheaves of paper. A group of old ladies sell T-shirts depicting Miss Suu Kyi and her father, Aung San, the hero of Myanmar's independence struggle. Even the plainclothes police keeping an eye on things from the tea stall across the street look more alert.

Too alert, explains U Lwin, the party spokesman. At the time of Miss Suu Kyi 's release, the military promised to let her and the NLD organise freely throughout the country, in preparation for negotiations on a return to democracy. But that agreement, and the dialogue it underpins, are beginning to break down. Although the NLD has reopened over 70 offices shut down by the military, some 300 more remain closed. Miss Suu Kyi has travelled to five of the country's ten states to rally party members. But on the last two trips, her supporters complained of harassment. In one incident, Mr Lwin says, the authorities tried to disperse a crowd with a fire hose. In another they dug up the road to prevent her reaching her destination.

Although Miss Suu Kyi remains publicly optimistic about the prospects for reform, her cheerfulness is beginning to ring hollow. Mr Lwin says there has been no attempt at substantive political negotiations. Razali Ismail, a former Malaysian diplomat who mediates between the two sides, has not even visited the country since November. One diplomat suggests that the trio of generals who head the junta feel particularly secure and unwilling to compromise after squelching dissent within the ruling elite last year. At any rate, the top brass has taken no action on even modest proposals, such as granting the NLD some role in soliciting and managing international aid.

The regime is implementing all its promised reforms at the same crawling and halting pace. Last September, after years spent denying that forced labour even existed in Myanmar, the government allowed the International Labour Organisation (ILO) to set up an office in Yangon to monitor its efforts to eradicate the practice. Hong-Trang Perret-Nguyen, the new ILO representative, says that the civil administration in the central part of the country no longer relies on forced labour to build canals, airports and railroads, as it did in the 1990s. But in the border regions, she says, the military still obliges farmers to carry their supplies, clean their barracks and build roads without pay. Villagers in the countryside echo her complaint, as do Burmese refugees in Thailand and numerous human-rights groups. Yet all her suggestions of ombudsmen, investigation teams and the like have fallen on deaf ears; instead, the junta's grand plan to solve the problem, she says, consists of little more than translating decrees against forced labour into the languages of the minority groups living along Myanmar's frontiers.

Observers view with similar cynicism the generals' decision in January to admit a delegation from Amnesty International for the first time ever. The delegates did conclude that the conditions in Myanmar's jails had improved significantly since 1999. But they also pointed out that more than 1,200 political prisoners were still being held in them. Indeed, two days after Amnesty's team departed, in early February, the police arrested 12 more political activists, including seven NLD members, for “anti-government activities”.

The junta's least substantial step of late was a statement asking for America's “advice on making the transition to a stable democracy”. American officials say they never actually received a formal offer of talks. But if they did, one adds, there would be plenty to talk about.

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Cambodia and the Khmers Rouges

Better this trial than none at all

Mar 20th 2003 | PHNOM PENH
From The Economist print edition

Agreement between the UN and the government

Get article background

FOR more than four years the United Nations and Cambodia have been trying to reach an agreement that would put Khmer Rouge leaders on trial for genocide in an independent and impartial court. This week the two parties struck an outline deal on the arrangements for a tribunal. The prosecution will be handled jointly by Cambodia and the UN. Cambodian and foreign judges will preside. Trials will be held in Phnom Penh, Cambodia's capital.

The UN legal team originally aimed for a tribunal entirely under its own authority, like those for Rwanda and the former Yugoslavia. The crimes against the Cambodian people when the Khmers Rouges governed the country in 1975-79 were so terrible that they were seen as of international importance, not simply a local matter. But China threatened to use its veto in the Security Council against such a plan, probably fearing that its reputation would be damaged by evidence of how closely it supported the Khmers Rouges over many years.

The UN also found no favour with Hun Sen, the Cambodian prime minister. It had allowed the Khmers Rouges to occupy Cambodia's seat in the General Assembly even after they were deposed. The UN for its part did not trust Mr Hun Sen to act impartially, were the tribunal to be run by Cambodia's government.

The UN was once opposed to Cambodia's plan for a “mixed tribunal”, saying it did not meet international legal standards, and a year ago it unexpectedly pulled out of negotiations. But a number of states that took a special interest in Cambodia, notably France, the former colonial power, and Australia and Japan, urged the UN to continue talking. Now the UN and the government have decided to try to make a mixed tribunal work. The draft agreement now goes to the General Assembly and the Cambodian parliament for approval.

Two Khmer Rouge suspects are in custody: Ta Mok, a regional commander known as “The Butcher”, and Kang Kek Ieu, called Duch, who ran a prison where thousands died. Two other top men, Khieu Samphan, the Khmers Rouges' chief diplomat, and Nuon Chea, the number two in the regime, live in liberty in Cambodia. They deny being involved in atrocities, but are sure to be indicted. Ieng Sary, the first senior Khmer Rouge to surrender to the government, has been given a royal pardon, although it is unlikely to protect him. At any rate, only top leaders will be indicted: the Cambodians and international jurists agree that wide-ranging trials would be destabilising.

All the suspects are getting old. Pol Pot, their leader, died in 1998. If trials are to be held at all, they must be soon.

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Burundi's peace process

On a knife edge

Mar 20th 2003 | BUJUMBURA
From The Economist print edition

Corbis

A small and bloodied central African nation struggles to make peace

ON MAY DAY, Burundi is supposed to get a new president. Pierre Buyoya, a Tutsi, is committed to cede power to a Hutu, Domitien Ndayizeye. If the handover goes as planned, it will mark an unusual triumph for peacemakers. But Mr Buyoya has reason to be nervous. The last time he stood down as president in favour of a Hutu, after a 1993 election, the Tutsi-dominated army refused to accept the result, and assassinated the new president. This sparked a civil war that has killed 300,000 Burundians and prompted 1.2m to flee their villages. Many others now tend their manioc fields by day but sleep in the bush, rather than in their homes, to avoid nocturnal encounters with gunmen.

Despite this awful precedent, outsiders think that the handover is an essential step towards peace. It is one of the terms of a peace agreement signed by Mr Buyoya and seven Hutu groups in 2000, and is also written into Burundi's latest constitution. The main precondition for the handover, a ceasefire with armed Hutu groups, was signed last December. But one group of diehards has persistently refused to make peace, and the fighting has actually grown worse since the ceasefire was signed, even among the groups that signed it. So at the beginning of this month, Mr Buyoya called for a national “debate” on whether he should stand down.

Burundi has roughly the same ethnic mix as Rwanda: a Hutu majority and a Tutsi minority. Despite their numbers, Tutsis dominate: for most of the past three decades, the government has been run by a single Tutsi clan from the region of Bururi. The Tutsi elite control the coffee trade (Burundi's only significant export), share government jobs out among themselves, and grab the bulk of foreign aid.

Hutus have often rebelled, and been crushed. Hundreds of thousands died in ethnic clashes in 1965, 1969, 1972, 1988 and 1993. At times, the army has deliberately sought to kill educated Hutus, to keep them from challenging the status quo. The genocide in Rwanda in 1994 convinced many Burundian Tutsis that if they ever surrender power, they will be wiped out.

Enter the South Africans

The pact of 2000 owed more to Nelson Mandela's patient mediation than to the Burundian elite's own desire for peace. The South African government sees faint echoes of its own situation before apartheid

ended, and hopes that Burundians can be reconciled, as black and white South Africans have been, more or less.

South Africa has sent 750 troops to guard peace-favouring Burundian politicians, who are otherwise liable to be murdered by their less reasonable countrymen. Some South Africans have pitched tents in vulnerable politicians' gardens; others follow their charges around town; and some form rapid-reaction units. When rebel mortars fly in from the hills around the capital, Bujumbura, and explode near a politician's home, the South Africans whisk the whole family to safety.

Spotting potential assassins on Bujumbura's unfamiliar streets is tricky, says Staff Sergeant Sakkie Snyman: you have to watch out for people “who avoid eye contact”. It can also be a thankless task. Extremist Tutsis jog past in threatening bands. Others scream “South Africans go home!” and distribute leaflets accusing them of protecting Hutu murderers.

The African Union has sent a more modest total of 43 military observers, whose task is to lay the groundwork for the dispatch of up to 5,000 soldiers charged with “peace-enforcement”. This is a huge undertaking. About 70,000 rebel fighters need to be disarmed and eased back into society. The World Bank has promised cash to help out, but the rebels have to want to disarm, and many clearly do not.

Peace also depends, crucially, on reform of the army: ie, allowing more Hutus to become officers. Mr Buyoya argues that he is the only man who can pull this off, as the Tutsi generals trust him. This is his excuse for wishing to stay on as president. Hutu opposition parties howl at the prospect. If Mr Buyoya stayed on, it would stir many Hutus to shift their support from peaceful Hutu parties to violent rebel groups. But some Burundians think he will do it anyway.

All the more reason, say western diplomats, to deploy peace-enforcers as soon as possible, to prevent further military escalation. Energetic military observers could provide better intelligence on what is happening in Burundi's forests, and so perhaps quell the persistent rumours that Hutus are handing out machetes in preparation for genocide. Or that Tutsis are burying weapons for self-defence.

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Fighting South African corruption

Four years for Mr four-by-four

Mar 20th 2003 | JOHANNESBURG
From The Economist print edition

A once-leading politician is jailed

EPA

Tony Yengeni, too poor to pay a fine

CORRUPTION in South Africa, gripe many locals, is as bad as in the rest of Africa. Poorly-paid policemen let offenders go in exchange for a few notes. Officials pocket pensions and other welfare payments they are supposed to pass on. Even the admired captain of the national cricket team, the late Hansie Cronje, was caught taking money from betting syndicates. Shady practice was long a problem during white rule, says President Thabo Mbeki, but he admits that it remains so today. In December, he promised to “fight graft and root out and defeat networks of corruption”. This week, that promise gained some credibility.

On March 19th, a court in Pretoria sentenced a senior politician to four years in jail. Tony Yengeni, who was until last year chief whip of the ruling party, the African National Congress (ANC), was found guilty of defrauding Parliament (though he was acquitted of a more serious charge). He failed to report a 47% discount on a four-wheel-drive car, which he received in 1998, when he was chairman of Parliament's defence committee. The car was supplied by Daimler-Chrysler, a firm closely connected to EADS, which was then bidding to sell fighter-aircraft to South Africa. Mr Yengeni, a flamboyant, snappily-dressed fellow, foolishly boasted that driving his new car was “like flying a jet”. Reporters promptly started investigating how he was able to afford it. He placed advertisements in newspapers to rebut the allegations that followed, but to no avail.

Mr Yengeni has lost his party job and resigned from Parliament. Before being sentenced, he pleaded that he was now so poor that, if fined, he could only afford to pay 1,000 rand ($120). The model of car that caused his downfall is now known as a “Yengeni”. It is not the first time an ANC leader has been jailed for sleaze, but Mr Yengeni is the most prominent yet. His punishment will worry others.

Winnie Madikizela-Mandela, the ex-wife of Nelson Mandela and head of the ANC Women's League, is facing 85 fraud charges. A former minister, Mac Maharaj, is seeking to refute allegations that he accepted money from a businessman connected with an arms deal. And the Scorpions, an elite police unit, are investigating no less a figure than Jacob Zuma, the deputy president. Mr Zuma is accused of soliciting 500,000 rand from a French arms company and of offering to protect it from official probes. Mr Mbeki defended his deputy on March 12th by refusing to appoint a judicial commission of inquiry. But he has told Mr Zuma to lead a national campaign of “moral regeneration”, which sets up the deputy president for a fall if any evidence of wrongdoing is unearthed.

In the short term, prosecuting crooks in high places generates unpalatable headlines. But if South Africa is to avoid the fate of so many of its neighbours, it must not let graft take root. For now, outsiders see South Africa as relatively clean: on Transparency International's corruption perception index, it is ranked 36th out of 102 countries, the third cleanest in Africa.

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Central African Republic

A popular coup

Mar 20th 2003 | BANGUI
From The Economist print edition

Stability seems a distant dream

AS THE president's plane approached the palm-flanked M'Poko airport, rebels shot at it, so he turned and fled. Ange-Félix Patassé, the Central African Republic's leader since 1993, has survived seven previous coup attempts, but on March 15th, his luck ran out. Mr Patassé is now holed up in an agreeable hotel in Yaoundé, the capital of Cameroon, and the country he misruled for a decade is in the hands of General François Bozizé, the disgruntled ex-chief of his army.

While the bow-tied Mr Patassé was off hob-nobbing at a conference in Niger, General Bozizé swept into the capital, Bangui, with 1,000 troops. His men drove into the city virtually unopposed, and swiftly seized the airport and presidential palace. Regular soldiers, who have not been paid for months, rushed home on their mopeds rather than fight. Peacekeepers sent by the Central African Economic and Monetary Community (CEMAC) abandoned their posts. Before the red dust of Bangui's streets had settled, General Bozizé's spokesman could be heard on national radio crowing that this was “not a coup attempt” but a coup. At least 15 people died.

Bangui's residents initially greeted the insurgents with delighted dancing. Unpaid civil servants have long hoped for regime change. There is also widespread relief at the withdrawal of some of the nastier forces Mr Patassé used to keep himself in power. Since October, he had employed a Congolese rebel group called the MLC, whose fighters spent a lot of time raping and looting. When faced with serious opponents, however, they demurred. Residents spat on them as they walked towards the Ubangi River to canoe home.

The euphoria did not last. The looting has started and the shooting has not stopped. Shops and vegetable stalls have been ransacked, and several ministries still smoulder. Civilians have retreated indoors. Among the men patrolling the streets are Arabic-speaking turbaned Chadians, though it is not clear that Chad's government approves their presence.

Mr Patassé fell because he alienated most of his friends. France used to prop him up, but stopped in the mid-1990s. For a while, he bought protection from Libya, in exchange for a 99-year monopoly of the country's diamonds, gold and other minerals. But under pressure from CEMAC countries, Libya withdrew its troops in December. They were replaced with 370-odd CEMAC peacekeepers who, as it turned out, did not want to die for the regime.

Mr Patassé asked France to protect him, but was spurned. France did deploy 300 troops, but to evacuate its own nationals, of whom few remain. Most of them had fled after last year's coup attempt, when General Bozizé's men seized control of half of the capital city and the street fighting became too frightening for all but the bravest of expatriates. The French are also supposed to reinforce the CEMAC peacekeepers, although to what end is unclear.

The African Union condemned the coup, but the foreign ministers of Congo-Brazzaville and Gabon both paid General Bozizé an apparently friendly visit. Having reportedly made progress in winning over the army, the general has promised to hold a “national dialogue” between opposition leaders, religious groups and members of the Patassé cabinet, to be followed eventually by elections. An early priority, he says, will be to secure fresh loans from the World Bank and IMF. This may be a bit optimistic. In the meantime, a curfew is in force, and looters are being shot.

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Germany's reforms

Dreaming of an economic revival

Mar 20th 2003 | BERLIN
From The Economist print edition

Gerhard Schröder has revealed his plans. Now he must get his hands dirty

Get article background

STIRRING it was not. Expectations had been whipped up so high that Gerhard Schröder's address to parliament on March 14th was almost bound to disappoint. The hope had been that the chancellor would provide a master plan to give back to the European Union's biggest and weakest economy its former leading role. He did not do that but he did announce a string of bold reforms which, in terms of the pain they are likely to cause, go further than anything proffered by any post-war chancellor. This has raised hopes that, after years of decline, sclerotic Germany may at last be heading in the right direction—if the embattled Mr Schröder can carry through his plans.

That is now the big question. Mr Schröder predicted that his speech would provoke “cries and gnashing of teeth”—and it has, particularly among the unions and the left wing of his own Social Democratic Party. His proposals for drastic restrictions in unemployment and sickness benefits have caused particular anger. Several Social Democratic backbenchers have already threatened to vote against the cuts. Despite the solid backing of its Green allies, this could cause severe difficulties for the government, which has a majority of only nine seats in the Bundestag, the lower house of parliament.

For the moment Mr Schröder is sticking to his guns. He could hardly do otherwise, having admitted (for the first time) that Germany's weak growth was as much due to structural factors as to the downturn in the world economy. Its non-wage labour costs, equal to 42% of gross wages, were “far too high”. The restructuring of its overburdened welfare state had become an “absolute necessity”. Public services would have to be cut and more “self-reliance” demanded of individuals.

In his proposed labour-market reforms, Mr Schröder goes beyond what the government commission, chaired by Peter Hartz, personnel director of Volkswagen, recommended last summer. The chancellor has announced taboo-breaking plans, not mooted by Mr Hartz, to tackle job protection, collective bargaining and the closed shop operated by the skilled craftsmen's guild. He has also returned to one of the main proposals in Mr Hartz's draft report, which had been dropped from the final report after furious opposition from the unions: to pay full unemployment benefit (60-67% of previous net wages) for a maximum of only 12 months to those under 55, instead of the present maximum of 32 months, and thereafter to pay only welfare benefits instead of the usually much higher long-term unemployment benefit.

Though Mr Schröder has bowed to union pressure to keep job protection in all companies with more than five employees, he has agreed to make the rules more flexible by letting small firms take on a sixth worker—or more—on a fixed-term contract without the other employees becoming eligible for full job protection. In larger firms, he proposes offering anyone laid off a choice between a fixed amount of compensation, not automatically available at present, and seeking redress in the courts, in which case the employee would have to renounce all rights to financial compensation. This, it is hoped, would help to avoid the long and unpredictable legal proceedings that always follow any attempt to lay off workers.

Mr Schröder also wants to make it easier for companies to opt out of sector-wide agreements when circumstances so require. At present, it is hard for a company in difficulties to offer lower rates of pay in an effort to keep the business afloat, even when the workers themselves agree. But Mr Schröder has declined to touch *Mitbestimmung*—the system of "co-determination" of workers and managers, whereby workers have works councils and seats on supervisory boards—which, though irksome to many managers, has helped keep Germany enviably strike-free.

Clean your own teeth

Mr Schröder's other main target for reform is Germany's overburdened and inefficient health system, which is one of the world's most expensive. Health-insurance contributions, shared equally by employer and worker, have shot up and now represent 14.4% of gross wages. Mr Schröder wants to bring that down to under 13%. Though he has rejected proposals for the removal of certain services like dentistry and sporting accidents from the state system, he has decided to require private insurance for long-term sickness benefit, hitherto paid by the public health-insurance companies, and to transfer other benefits not related to health, such as maternity grants, to taxes. He also plans to introduce a fee for every visit to a doctor.

The chancellor's menu

- **Job protection eased.** Choice between fixed compensation and recourse to courts. More flexibility for small companies to hire and fire
- **Unemployment benefits cut.** Duration of payments generally limited to 12 months, thereafter given out at basic social-security rates
- **Non-wage labour costs to be cut**
- **Collective bargaining.** Opt-outs permitted at company level
- ***Mittelstand* to be helped** by lower taxes, easier credit, simplified book-keeping; relaxed rules for new companies hiring workers on fixed-term contracts
- **Health.** Basic fee for each visit to doctor; long-term sickness benefit removed from state system
- **Pensions.** Further adjustments to last year's reforms promised
- **Abolition of "Master" requirement** for skilled craftsmen setting up own company
- **Reform of local-government finance.** €15 billion in cheap loans to boost public and private investment
- **Public finance.** No further tax hikes or cuts; intention to stick to euro zone's 3% deficit limit
- **Education.** State premiers to attend a reform summit this summer

Further proposals on restructuring the health system are likely to come when the government commission on welfare reform, chaired by Bert Rürup, reports later this spring. Mr Rürup, an economics professor, will also make recommendations on pension reform. Mr Schröder has admitted that further "adjustments" are already needed to the long-term pension reform introduced by his government only last year. Under it, government-backed private pension funds were set up for the first time to supplement the dwindling pay-as-you-go state pensions. Some 15% of workers have so far opted to contribute to the new scheme.

Mr Schröder is also planning legislation to make life easier for Germany's *Mittelstand*, the small and medium-sized companies that provide about three-quarters of all jobs. They will be offered big tax cuts, easier credit and simpler book-keeping procedures. New companies are to be allowed to take on workers on fixed contracts—making lay-offs easier—for up to four years instead of the usual two. Skilled craftsmen, like plumbers, decorators and hairdressers, will generally be allowed to set up on their own after ten years of work experience, without requiring an expensive and hard-to-get *Meisterbrief* (master diploma). And a non-master will be able to set up his own company provided that at least one employee has a *Meisterbrief*.

Mr Schröder's “Agenda 2010”, as he calls these proposals, is supposed to help create jobs and boost growth. But his room for manoeuvre on growth is slight, given his newly reconfirmed commitment to the EU's stability pact. Germany overshot the pact's 3% limit for the public deficit last year and is likely to exceed it again this year, particularly after the rejection last week of his tax package in the Bundesrat, the opposition-controlled upper house.

The unions and Social Democratic left-wingers have long begged Mr Schröder to boost growth with a huge public-investment programme. Local governments are now to be offered cheap loans to the tune of *euro*7 billion ($7.3 billion) but are so indebted that many are unlikely to take it up. Another *euro*8 billion in cheap credit is being offered to the private sector for the renovation of houses. These and his other measures are unlikely to boost growth much.

The unions are appalled by most of Mr Schröder's proposals. Most employers and economists, on the other hand, have welcomed them as a “good beginning”, but they say he must go much further. The conservative opposition, whose approval is needed for the reforms' passage in the upper house, has indicated it will provide support. Mr Schröder says he wants everything on the statute books by next year.

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Liechtenstein

Democratic feudalism

Mar 20th 2003
From The Economist print edition

A vote for greater princely power in one of Europe's smallest countries

BETTER a bossy feudal master than no master at all. That, roughly, is what the voters of Liechtenstein, a tiny principality sandwiched between Switzerland and Austria, decided on March 16th when they voted two to one to rejig their constitution to give the ruling prince, Hans-Adam II, more powers than any other European monarch.

Under the princely family's rule, Liechtenstein's 33,000 people have prospered hugely. A dirt-poor Alpine valley has turned into an international financial centre, albeit one with a reputation clouded by allegations of money-laundering and tax evasion. The proposed new constitution gives the current ruler, a stiff-mannered moderniser, the right to sack governments and veto judges' appointments. Had it been turned down, he had threatened to move back to his family home in Vienna.

The Council of Europe, a talking-shop for democracies, promised a close look at the results. “I hope that the new rules will be used to strengthen the democratic institutions and that the courts will keep their independence,” said its secretary-general, Walter Schwimmer.

Another problem is the bad feeling left by the referendum. Traditional-minded Liechtensteiners dislike the democracy campaigners, who they think threaten the country's stability and prosperity. One campaigner against the new constitution, Mario Frick, found a rotting pig's snout in front of his office.

The big question now is how far Liechtenstein can really clean up its reputation for financial dodginess. The correct way to address Hans-Adam (and other princes) is “Durchlaucht” (serenity). Extending that quality—and transparency—from court etiquette to the financial system would please a lot of people, not least German tax collectors.

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Finland's general election

A rainbow could still shine

Mar 20th 2003 | HELSINKI
From The Economist print edition

The Finns could get their first-ever female prime minister—maybe

IN A general election on March 16th the Centre Party, a largely rural outfit led by Anneli Jaatteenmaki, won the most seats, so edging out the ruling Social Democrats, headed by Paavo Lipponen, the prime minister. Ms Jaatteenmaki's lot got 55 seats in the 200-seat parliament, two more than Mr Lipponen's but well short of a majority. Since coalition government and consensus are the Finnish norm, horse-trading after the vote determines the real victor.

Still, it was an unexpected success for the 48-year-old Ms Jaatteenmaki, a lawyer who has formally led the Centre Party only since last year. A farmer's daughter from rural western Finland, she has a tough and steely image, yet in the campaign she was at ease with ordinary Finns, sipping coffee with shoppers or travelling between meetings on public transport.

Mr Lipponen's ruling rainbow coalition, with the widest ideological span of any in Europe, has held power since 1995 and has done a fair job. For most of that period it included the Social Democrats, the conservative National Coalition Party, the ex-communist Left Alliance, the Swedish People's Party and—until it walked out last year over a plan to build a new nuclear power plant—the Green League. This hotchpotch government has been a symbol of Finns' eagerness to work together.

Emerging from an economic crisis in the early 1990s after the fall of the next-door Soviet Union, its main trade partner, Finland has been one of Europe's punchiest economies, though in the last two years it has grown by only 0.7% and 1.7%. In the shadow of Nokia, the world's largest mobile-phone maker, a huge high-tech sector has flourished, breaking the Finns' reliance on metals and forestry-linked industry. Nokia alone makes up over 5% of the country's GDP; at its peak in 2000 it accounted for one-third of Finland's growth.

Ms Jaatteenmaki attacked the government for failing to bring down unemployment, which stands stubbornly high at around 9%. She also accused Mr Lipponen of being too close to the Americans and not taking a firm enough stand against their policy over Iraq. But, perhaps most importantly, she was simply a new face.

Her talks with the ponderous Mr Lipponen will be crucial, as her first option will be to team up in government with his Social Democrats. She and Mr Lipponen will both want the top job. The talks may founder because he may not be willing to serve under such a novice.

In policies, however, little divides them. The Centre Party is more sceptical towards the European Union and, with its rural roots, speaks up for the regions; it won only two seats in Helsinki, the capital. And though the Centre Party is certainly not socialist, the lady has taken care not repeat the mistakes of her predecessor, who nettled the Finnish trade unions. She says she will not seek to cut welfare.

Still, she must not overplay her hand. Despite her win, she knows that a combination of the other parties could still get a majority in parliament without her lot. So she has to tread warily.

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Serbia after Djindjic

Can the new man finish the job?

Mar 20th 2003
From The Economist print edition

One Zoran follows another, with crossed fingers

AP

Farewell to a leader—but not to reform

Get article background

CAN Zoran Djindjic's bid to clean up Serbia be completed without Zoran Djindjic? To judge by this week's spectacular wave of arrests, not to mention the demolition of a large shopping centre with underworld connections near Belgrade, the assassinated prime minister's successors are doing their vigorous best to avenge his death and honour his memory. More than 750 people, including a heart-throb folk singer, a former state-security chief and the founder of a cut-throat special-forces unit known as the Red Berets, have been hauled in under the state of emergency declared after Mr Djindjic was shot in Belgrade on March 12th.

Only last year the crooner known as Ceca, who recently described herself as a “fragile young woman”, could fill a stadium with 100,000 adoring fans. But Ceca was also the widow of a notorious warlord known as Arkan, who was killed three years ago. When the police came for her, they found a sealed bunker in her house containing 21 guns, 5,000 rounds of ammunition, handcuffs, police batons—and a crossbow complete with arrows. More ominously for Ceca (real name Svetlana Raznatovic), the authorities said they had found solid evidence of her links to the Zemun drug cartel, which has been accused of killing Mr Djindjic. Exactly who shot the prime minister is not yet clear, but most Serbs have little doubt about the sort of people who ordered his assassination.

With impressive swiftness, a serious attempt is being made to realise one of the late prime minister's dreams: to break up the interlocking network of gangsters, war criminals, corrupt security chiefs and ultra-nationalist politicians that flourished under Yugoslavia's former ruler, Slobodan Milosevic, and has never lost its grip on Belgrade's underground power structure.

Can this drive to rid Serbia of its darkest forces be sustained? Mr Djindjic himself had no illusions about the Herculean nature of his task; and, without his skills as a political tactician, it could get even harder.

On March 18th Serbia's parliament elected one of his loyal lieutenants to replace him as prime minister and supervise the state of emergency, which may last until May. The new man is Zoran Zivkovic, once mayor of the southern city of Nis. He lacks the murdered leader's intellectual sophistication but, unlike the not very popular Mr Djindjic, is clubbable in a homely, provincial sort of way.

To keep reform moving, Mr Zivkovic will presumably take up Mr Djindjic's determination to consolidate

the power of the Democratic Party (which governs in a ragtag coalition) and outmanoeuvre the politicians who have been slowing the pace of change. Prominent among these, in the Democrats' view, is Vojislav Kostunica. This moderately nationalist lawyer has just lost his job as Yugoslavia's head of state, after the federation's dissolution, but will sooner or later probably be elected president of Serbia. Nobody says he is in cahoots with Serbia's network of thugs, but the Democrats think he is too cautiously conservative to help their cause.

The puncturing of Mr Kostunica will be the first test of the new prime minister's ingenuity. Mr Djindjic had artfully managed to postpone Mr Kostunica's move into the Serbian presidency by ensuring that the turnout was invalidly low in election rounds held since December, even though Mr Kostunica easily topped the polls. The Democrats plan to revise Serbia's constitution, weakening its president, before next autumn, when yet another vote is due and Mr Kostunica may at last get the job.

The same aim lay behind the dead prime minister's determination to manage the Yugoslav federation's dissolution into a looser confederation of its two constituent parts, under the woolly title of Serbia and Montenegro. He wanted the weak institutions of the new confederation to be manipulable by the prime ministers of Serbia (then himself, now Mr Zivkovic) and Montenegro. Mr Djindjic's plan may be carried out under his successor. A six-person cabinet for Serbia and Montenegro was approved on March 17th, consisting of protégés either of Mr Djindjic or of Montenegro's prime minister. The only job with some clout, that of defence minister, has gone to a Djindjic man, Boris Tadic.

So far, then, the spirit of Djindjic lives on. But there is no guarantee that this early string of posthumous successes for Serbia's political fox will continue. Establishing full democratic control over the army, which comes under Serbia and Montenegro, and the police force, a Serbian institution, is a horribly tough job in a country where the armed men have never really been run by civilians.

Another headache faces Mr Zivkovic, very soon. How many more war-crimes suspects will he hand over for trial at the UN's tribunal in The Hague? The Americans have threatened to suspend aid to Serbia unless it gives full co-operation to the court. There is particular impatience over the Serbs' failure to hand over Ratko Mladic, the former commander of the Bosnian Serb army. One way of trying to fend off this pressure might be to hand over the generals accused of atrocities during the brutal siege of the Croatian town of Vukovar in 1991. But will the Serbs let their novice prime minister do even this?

How many more war-crimes suspects will Mr Zivkovic hand over for trial at the UN's tribunal?

Their anger over Mr Djindjic's assassination puts some wind in his successor's sails. But many of the Serbs now cheering on the arrest of well-connected drug dealers are far less keen to see their leaders dispatching suspected war-criminals to a foreign court—even though the two sets of villains are often closely connected.

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Russia and Chechnya

Far from normal

Mar 20th 2003 | MOSCOW
From The Economist print edition

An impending referendum will bring neither peace nor security

Get article background

AP

A Russian constitution for Chechens

IT IS supposed to mark the end of an 11-year fight for independence. On March 23rd, Chechnya will hold a referendum on a new constitution that declares it once more an “autonomous republic” of the Russian Federation. President Vladimir Putin has promised the Chechens “sweeping autonomy”, “extremely flexible schemes” and “a chance to rebuild” their lives if they approve the new charter.

But these are vague pledges. One main reason for a new constitution is legalistic: to let presidential elections take place later in the year, giving Chechnya a leader with more semblance of legitimacy than the current Moscow-appointed head. But the new constitution contains Mr Putin's true message: the Kremlin will have the right to dismiss Chechnya's president at any time, unlike those of other autonomous republics. And any apparent normality that Chechnya's new status seems to bring will be as big a sham as the referendum itself.

The ballot is the latest step in Mr Putin's effort to restore the appearance of order to a land shredded by two wars since the Soviet Union's collapse and a decade of lawlessness. Last year he declared the military campaign, waged since the second war began in 1999, officially over, and handed control to Russia's internal security service, the FSB. In the autumn the authorities began closing down Chechen refugee camps in neighbouring Ingushetia and pressing their residents to go back home. At the end of the year, the Organisation for Security and Co-operation in Europe (OSCE) closed its mission to Chechnya after the government refused to let it carry on monitoring human rights.

But any illusions that things were under control were shattered by two events: the seizure of a Moscow theatre and its audience by rebels in October, and a car bomb attack that destroyed the Moscow-backed administration building in Chechnya's capital, Grozny, in December. Moreover, Russian troops—some 80,000 in the province—continue to be killed by separatist rebels in clashes that have recently intensified. Official figures say under 5,000 soldiers have died since 1999; the Committee of Soldiers' Mothers, a pressure group, estimates more than twice as many.

The local population continues to suffer too. According to Memorial, a Russian human-rights organisation, this year the army is carrying out fewer *zachistki*, or mopping-up raids, its previously preferred method of hunting down rebels; but disappearances and kidnappings, particularly of young Chechen men who are prime rebel suspects, have increased. Chechens were especially angered in December when Yuri Budanov, a colonel who had raped and strangled an 18-year-old Chechen woman, was acquitted on grounds of temporary insanity. He is still in jail while the prosecution appeals, but it remains to be seen whether the appeal will be heard once the referendum is over.

Few think a referendum in such conditions can be fair. Memorial has refused to legitimise it by sending observers; so too have the OSCE (though it will send a small group of “fact-finders”) and the Council of Europe. There are disputes about the size of the electorate: locals and humanitarian agencies working there say that a recent census was inflated. It claims that the population has grown since the wars began, even though hundreds of thousands of people are thought to have either died or fled. There have been press reports of people being forced to register to vote, on pain of losing food aid. Leaflets supporting the referendum appeared in some villages, purporting to come from Aslan Maskhadov, the

rebel leader elected president of Chechnya in 1997; but Mr Maskhadov, from his hideout in the hills, has declared them fake and called for a boycott.

But the referendum will take place, and Chechnya will almost certainly get its constitution, by foul votes or fair. Maybe most Chechens no longer care for independence. The war has ruined their lives. The separatists have brought them no joy; indeed, they profit from the conflict through kidnapping and racketeering, just as the Russian troops profit by taking bribes and selling weapons to the very rebels who are trying to kill them. And though the rebels are too strong to put down, they are not organised or popular enough to relaunch an independence movement.

However, there is no obvious candidate for president—not even the discredited Mr Maskhadov. The true test for Mr Putin's ability to impose normality on Chechnya will come when the republic has to elect a leader.

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Charlemagne

From Suez to Baghdad

Mar 20th 2003
From The Economist print edition

The Iraq crisis may determine the future of European relations with the United States

THROUGHOUT the current crisis Britain and France have been guided by fundamentally different instincts. France believes that the European Union must balance—and sometimes confront—American power. Britain believes that Europe and the United States can mould the world together. Both views were shaped almost 50 years ago by the Suez crisis of 1956. The war with Saddam Hussein may prove just as decisive in forming the attitudes that future generations of Europe's leaders will have towards American power.

The echoes and ironies of the Suez crisis are hard to avoid. Then it was Britain and France that launched a military action aimed at toppling a Middle Eastern dictator, Nasser of Egypt—and it was the United States which worried about legality and the international impact of intervention without a wider mandate. In the run-up to war, John Foster Dulles, the American secretary of state, argued that the use of force against Nasser “would make bitter enemies of the entire population of the Middle East”. The British and the French, however, were cast in the role of today's impatient Americans. They were, as a historian, Peter Clarke, puts it, “bent on intervention and increasingly impatient of the time-wasting pantomime at the United Nations, ostensibly aimed at a diplomatic settlement.” Eventually they abandoned the UN process and went to war.

Reminded of these parallels this week, a British Foreign Office minister replied: “Very neat, but remember this time the French, unlike the Americans, aren't in any position to pull the plug on us.” The Franco-British intervention in Suez failed because, faced with a run on the pound, the British were unable to resist American economic pressure to pull back. Once Britain had got over its shock and anger at American “betrayal”, it drew a simple conclusion: in future, British foreign policy should always be carefully aligned with America's global objectives.

France drew the opposite lesson. When Anthony Eden, the British prime minister, called Guy Mollet, his French counterpart, to tell him that Britain had agreed to an immediate ceasefire in Egypt, Mollet was in the middle of a meeting with Konrad Adenauer, the German chancellor. As the historian William Hitchcock records: “When Mollet, totally deflated by Eden's call, returned to the room, the German chancellor bucked him up by denouncing the Americans and British as unreliable. Instead, he declared, ‘Now is the time to build Europe.’”

Ever since, France and Britain have lived by the different lessons they drew from Suez. In recent months Tony Blair has given warning again and again of the dangers of dividing Europe from the United States (see article). Jacques Chirac, France's president, has insisted by contrast on the need for a "multipolar world", code for an EU that can face down the United States.

Both views have their adherents in the rest of Europe. At the summit in the Azores last weekend, the leaders of Spain and Portugal spoke just as insistently as Messrs Bush and Blair about the need to maintain a transatlantic community. The countries of central Europe and the governments of Italy, the Netherlands and Denmark are also in the Atlanticist camp. France's yearning for a European declaration of independence from the United States seems to be shared by the German and Russian governments and most of the European left. In truth, however, attitudes are fuzzy and uncertain all over Europe. A great deal will depend on the course of the Iraq war and its aftermath.

If things go badly and Tony Blair is forced out of office—as Eden was in the 1950s—it is possible to imagine the current crisis as a "Suez in reverse" for Britain. The obvious conclusion for any new prime minister would be that Mr Blair's mistake was to ally himself too closely to the Americans in defiance of much of British public opinion and of the other main European powers. A new policy would downgrade Britain's "special relationship" with the United States and would be much warmer to the idea of a united European foreign policy.

Such an outcome would be a sweet vindication for France. But Mr Chirac's strategy may, in the long run, be even riskier than Mr Blair's. A successful war against Iraq risks leaving France looking both impotent and wrong-headed. It could also lead to a diminished status for the UN's Security Council, the major forum for the exercise of French global influence, and the shelving of the idea of a united European foreign policy.

In the end, it's America that matters

Even if the Anglo-American assault on Iraq does not go smoothly, it would have to be a really spectacular debacle to give birth to an EU foreign policy that was not only united but also consistent in its determination to be different from the United States. Such a policy would run completely counter to the instincts of the "new Europeans" of central Europe—and would be pretty hard to sell in much of western Europe. It is striking that, with the important exception of Germany, the strongest support for the French position over Iraq has come from outside the EU—from Russia and from the Arab and Islamic world. A French strategic alliance with Russia, even in the event that it proved durable, would alarm much of the rest of the EU.

And although *Le Figaro*, a right-wing French newspaper, has hailed Mr Chirac as "the white knight of peace, the champion of all the oppressed of the earth", wiser counsels in Paris are warning their president against being intoxicated by such a vision. As Dominique Moïsi of the French Institute for International Relations in Paris has written, "Applause on the streets of Khartoum or Tripoli should not constitute the measure of France's diplomatic success." For France there is no substitute for the European Union; and for most of the EU there is no future in a prolonged confrontation with the United States. The Iraq crisis may produce a new mould for transatlantic relations. But it is unlikely to be of French design.

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The politics of war

What turned it for Tony

Mar 20th 2003
From The Economist print edition

Independent

Things have gone from bad to better for Tony Blair in the past week—thanks, in part, to some of his opponents

Get article background

IT COULD have been worse. British forces now know that the government that has committed them to action in Iraq has the support not just of a sizeable majority in the House of Commons, but also of most of its own backbenchers. And with war under way, shared concern for the forces is now binding together those divided by the argument over whether this is a war worth fighting. The mood is sombre, but there is a kind of unity—for the moment, at least.

This is not to minimise either the importance or the size of the rebellion on the government benches. With 139 Labour MPs voting for an amendment declaring that the case for war had not yet been made, this was one of the largest rebellions in the history of Parliament. However, the prevailing mood among ministers was one of relief. After warnings from the whips of “meltdown” and fears that Tony Blair's authority could be irreparably damaged, the outcome, at the end a long and impressive debate, seemed like a kind of victory for the prime minister.

What turned it for Mr Blair? No one big thing. A number of separate factors worked together in his favour.

Although it did not seem so at the time, Mr Blair's fortunes began to change last week when Jacques Chirac made his unwise promise on television to veto any second resolution cooked up by the Americans, British or Spanish “whatever the circumstances”. As it became clear that Britain's efforts at the United Nations were running into the sand, French intransigence became a useful scapegoat. After all, was this not exactly what Mr Blair had thought possible when he had suggested he might have to disregard an “unreasonable” veto from another country? Crude though blaming the French for the failure of British and American diplomacy may seem, it played well both with MPs who wanted to escape from the hook of the second resolution and with a public never averse to a bit of frog-bashing.

The 30-or-so MPs in the left-wing Campaign Group also overplayed their hand. Unable to contain their excitement at the prime minister's difficulties, they started talking about setting in motion the cumbersome machinery to remove him from the leadership. Loyalists were predictably furious, but so too were many of the MPs who thought they were voting against Mr Blair's policy on the war, but not against

his leadership.

The prime minister is not held in deep affection by his party, but he commands great respect for having done what no other Labour leader has come close to achieving: delivered two successive landslide majorities. Labour MPs know not just that they owe their seats to Mr Blair, but also that he is still their best hope of hanging on to them.

Another actor in the drama who did her bit for Mr Blair was Clare Short, the minister for international development. Convention demanded that, having declared that she would quit the cabinet if Britain went to war without a second UN resolution and having publicly condemned Mr Blair for “recklessness”, she should have resigned. But Ms Short, as usual, refused to be bound by convention. Instead, she allowed herself to be flattered into staying put. When the war was over, what would the wretched of Iraq do without Saint Clare to bring them comfort? Ms Short's left-wing chums were disgusted, but others concluded that if even she could vote with the government, then so could they.

President Bush, who has not always been as sensitive to his partner's predicament as he might have been, provided a further helping hand by agreeing at Mr Blair's prompting both to put his back behind the Middle East peace process and to announce that he wishes to work with the UN in the reconstruction of Iraq. It wasn't much—Mr Bush is supposedly committed to the “roadmap” to peace in the Middle East anyway and would presumably like a bit of assistance rebuilding Iraq—but it helped with anti-Bush Labour MPs.

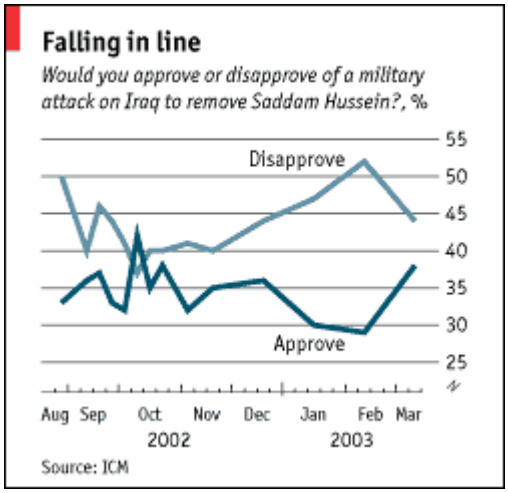
Only three ministers out of an astonishing total of 91 resigned, two of them people few had heard of. But the greatest risk the prime minister faced was from the one cabinet minister who went, the leader of the House of Commons and former foreign secretary, Robin Cook.

Mr Cook behaved as properly as Ms Short did not, arguing his case within cabinet, but saying nothing of his concerns to the outside world until he had departed. He is also the most destructive debater in British politics. Downing Street therefore feared that with his forensic skills and inside knowledge he might re-ignite the smouldering rebellion.

Mr Cook did indeed produce a wounding critique of the government's policy, and he got a standing ovation. But, luckily for Mr Blair, his resignation speech was delivered on the day before the great debate.

While the effects on some waverers of some fairly brutal arm-twisting by the government whips should not be discounted, nor should Mr Blair's persuasiveness. The moment he stepped off the plane from the Azores, he set about cajoling and charming groups of doubting MPs.

Mr Blair's speech in the debate, the most important of his career, was not smooth and clever like Mr Cook's the day before. It was raw, bleak and powerful. Even those who disagreed profoundly with him expressed admiration for his moral courage and grace under pressure.



Had many MPs not already promised their constituency parties that they would vote for the anti-war amendment if there was no second resolution, the rebellion might have been smaller. The government's majority on the main motion endorsing military action was 412 to 149: many of the rebels had evidently returned to the government fold.

In a curious way, this difficult time seems to have enhanced Mr Blair's authority. But he remains vulnerable should either the war or its aftermath be messy. There is also still the little matter of public opinion, which, though moving in his direction (see chart), is far from supportive. And looking ahead, nobody, perhaps least of all Mr Blair himself, knows how this searing experience will have changed him and his party.

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Northern Ireland

Why's Gerry at George's party?

Mar 20th 2003
From The Economist print edition

The White House should not be fêting Sinn Fein leaders

Get article background

Reuters

Adams and friends

IT ISN'T quite the same as inviting Osama bin Laden round to Number 10 for tea and sandwiches. Still, fêting Gerry Adams, head of Sinn Fein, the political wing of the IRA, at the White House St Patrick's Day party was unhelpful to both Tony Blair and the Northern Ireland peace process.

Moral and financial support from America has been vital to the IRA over the years. September 11th therefore had a beneficial side-effect for Northern Ireland, and for Mr Blair. When terrorism fell out of favour in America, so support for the republicans declined. As a result, the peace process, which had stalled, suddenly accelerated, and the IRA showed signs of being serious about decommissioning their weapons.

Now things have stalled once more. The devolved government that the peace process set up in Northern Ireland has been suspended because the IRA has still not convinced the other parties involved that it is really going to get rid of its arms. After a summit earlier this month, Mr Blair and his Irish counterpart, Bertie Ahern, signalled that they expected some movement soon; but it has not yet come.

Mr Blair needs to show doubting Britons that his support for America in Iraq will bring tangible benefits at home. American pressure on Sinn Fein to deliver the IRA's weapons would help. In the meantime, inviting Mr Adams to the White House does not.

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Tabloid justice

Bang to rights

Mar 20th 2003
From The Economist print edition

Money, tabloid newspapers and justice do not mix well

WITNESSES are valuable, both to the criminal justice system and to newspapers reporting sensational cases. But the tabloids' cash could, in theory at least, skew a trial. Juries who find out that witnesses are being paid for their story are more likely to acquit. Such cases in recent years have included that of Amy Gehring, a teacher acquitted in 2002 of having sex with her underage pupils—several of whom admitted in court to being on the tabloids' payroll.

Annoyed by this, the government proposed a new law, banning all payments to witnesses. To avoid that, the Press Complaints Commission, Britain's media watchdog, issued stricter guidelines on March 19th. Payments are now banned once court proceedings are “active”—meaning after a suspect has been charged. Editors may no longer use the defence, possible until now, that the public interest is being served.

That may be enough to satisfy the government, which is eager to keep the current self-regulatory regime. Some people still want a much tougher approach to the tabloids all round, however. Their case was strengthened last week when Rebekah Wade, the recently appointed editor of the *Sun*, admitted to a parliamentary select committee that journalists on the country's top-selling tabloid had been in the habit of paying police officers for valuable information.

This is bad but hard to stop: journalists usually go through intermediaries—typically private detective agencies run by retired policemen, whose ties to old pals still in the force are harder to monitor. Unlike payments to witnesses, though, this is already a crime. A few high-profile prosecutions of journalists and their editors would work wonders.

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Congestion charge

Ken's coup

Mar 20th 2003
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London's congestion charge is working better than even its advocates expected

EPA

Charging ahead

IT HAS been a bad month for those who predicted that London's congestion charge would bring the city to a chaotic halt. Since the £5-a-day ($8) charge for driving in central London between 7am and 6.30pm was introduced on February 17th, average speeds in the area have more than doubled. For Ken Livingstone, London's mayor, who introduced the charge, this is not all good news: it has been so successful in turning away traffic that it is raising less money than expected.

According to Derek Turner, boss of the capital's street management department, traffic has been reduced by 20% and delays cut by nearly 30%. Speeds in the charged zone have increased from 9.5mph to 20mph. Delays to buses caused by congestion are down by half. As a result, bus passenger numbers are up by 14%.

The number-plate-recognition technology is working well. Just under 100,000 motorists a day are paying the charge, more and more of them on their mobile phones, by text message.

Those living on the zone's borders feared that traffic would be diverted on to their streets. Mysteriously, although there is 10% more traffic on the peripheral roads, journey times along them have not increased. Cynics reckon that traffic lights were fiddled to increase journey times in the run-up to the charge's introduction, and that they have since been readjusted to make traffic flow more easily.

It is not yet clear whether the decrease in traffic has hit retailers. For the moment, they are more worried about the closure of the Central Line on London's Underground. Half of the shoppers surveyed in an ICM poll carried out for Retail News said it would deter them from driving into the zone. Even so, 55% are in favour of it. London First, a business organisation, says that three-quarters of the companies it surveyed in London believed that the charge was working well. Just under a third said the impact on their business had been helpful, 65% said it had been neutral and only 5% said it had been negative.

According to a MORI poll, 50% of Londoners are in favour of the congestion charge compared with 36% against. Mr Livingstone's personal poll ratings are now higher than they were when he was elected three years ago. His aides joke that he has peaked too soon.

So far, the only downside for Mr Livingstone is that revenues, at £9.5m for the first four weeks, are somewhat lower than expected. As a result, net revenues may be under £100m a year though fines may boost the total. The numbers of drivers who do not pay the charge is now down to about 4,000 a day. If they fail to pay their £80 fine, at least they'll be able to get to court on time.

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Property prices

London falls first

Mar 20th 2003
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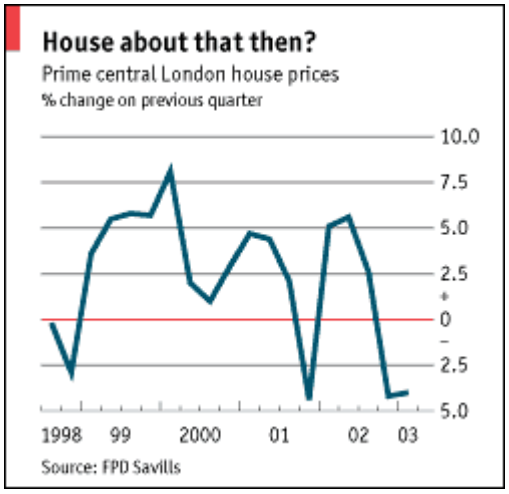
London house prices have now fallen for two quarters on the trot



GOOD news for first-time buyers, those wanting something a little larger because baby is on the way, and the newly divorced: property prices are down. As it led on the way up, so London seems to be leading the way down. Prospective buyers have even been treated to the novel thrill of estate agents, struggling to drum up business, providing them with a bit more than the usual "service".

Quite how much property prices have fallen is a bit tricky to say because the market is opaque and statistics are difficult to calculate and generally late. But FPD Savills, a property consultancy that also flogs a few houses, and calculates its own index, reckons that prices in prime locations in central London (Hampstead, Belgravia and so forth) have fallen for two quarters on the trot—the first time that this has happened since the early 1990s.

The rot seems to be spreading. This week, a survey from the Royal Institution of Chartered Surveyors showed that property prices had fallen a bit in England and Wales. But central London's fall is sharper, with prices down by 4% in the final quarter of 2002, and by another 4% so far this year, according to Savills.

Granted, that is small beer, given that prices have trebled since the central London property market took off after Britain was ejected from the exchange-rate mechanism in 1992. And they fell briefly at the end of 1998 and 2001, only to rise again strongly. Is this latest fall merely a longer pause for breath because would-be buyers have been winded by war worries, or the precursor of something more serious?

The prospect of war certainly seems to have dented enthusiasm for property in central London. If the war is short and its effects small, optimists hope that buyers will return, encouraged by lack of supply, low interest rates, which make mortgage debts appear relatively cheap to service, and a fairly benign economy.

However, Richard Donnell, an analyst at Savills, points out that the rises in London property prices coincided with bumper years in the City, for the good reason that 40% of those that buy in the prime central London locations work there. For now the City is in its own version of hell, with jobs being cut left and right. Moreover, only 60% of buyers purchase houses to live in; many have bought either as second homes or to rent out. The rental yield is now only about 2.6%, compared with a 4% yield for shares, which does not make property especially alluring. These days Tokyo may look a better bet. Once upon a time, house prices there could never do anything but rise. They have now fallen for more than ten years in a row.

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Final-salary pensions

The amazing shrinking pension funds

Mar 20th 2003
From The Economist print edition

Companies are finding ways to cut workers' entitlements

ONCE a source of pride, Britain's occupational pensions are now a cause for alarm. Falling stockmarkets have torn gaping holes in pension funds. Companies, fearful that these deficits could undermine their balance sheets, are looking around for new ways to cut back their pension commitments.

The main change companies have made over the past two years is to close to new entrants the traditional final-salary schemes. These provide pensions linked to end-of-career earnings and years of service. According to the Association of Consulting Actuaries, almost half of these plans are now closed to new members. Instead of these defined-benefit schemes, new workers are offered a defined-contribution (DC) plan in which their investments build up a pot of money, out of which they buy an annuity on retirement.

Such closures spell the eventual demise of final-salary schemes. The number of workers building up pension rights will dwindle and pensioners die off. But it is “a slow-burn solution to pension costs”, says Raj Mody of Hewitt, Bacon & Woodrow, a pensions consultancy. Existing working members will continue to accrue benefits, typically worth a sixtieth of their final salary for each extra year of service. And the scheme loses the cross-subsidy from younger workers, whose contributions are more valuable because they have longer to accumulate investment returns.

A typical company that shunts new entrants into a DC plan will therefore only make a modest initial saving, according to calculations by Mercer, a pensions consultancy. Companies can expect to be paying 25% more cash into their pension plans five years later; this compares with an increase of 30% if the final-salary scheme had been left open. Mr Mody says that it can take even longer to achieve savings if the company contributes generously to the DC plan for new employees.

Such projections, combined with bleak prospects for investment returns, explain why firms are now searching for further economies. According to Peter Bowers, European partner at Mercer, some 1,200 of its 3,000 pensions clients in Britain are trying to find new ways of reducing their commitments further. These cuts are aimed squarely at existing pension-scheme members.

Employers are adopting two strategies. The most popular is to retain the core final-salary benefit but to ask employees to contribute more—in effect, cutting their pay. Generally, says Mr Bowers, the employee contribution is rising from 5% of salary to 6-7%. Sainsbury's, a supermarket chain that closed its final-salary scheme to new members three years ago, is pursuing this approach. From next year this scheme will remain open to employees only on condition that they raise their contribution rate from 4.25% of pay to 7%.

Other companies are taking more aggressive steps to cut the financial risk involved in underwriting a generous final-salary scheme. They are hacking away at benefits earned by new service, for example by cutting the pension accrual rate for each year worked from a sixtieth of final salary to an eightieth—a cut in the pension promise of 25%. Only a few, mainly smaller, businesses, though, are taking the more drastic step of switching existing members entirely to defined contributions. The Big Food Group, a foods chain formed from the merger of Iceland and Booker, is one larger company that did this last year.

Even so, all these tweaks leave pension funds owing lots of money, both to pensioners and to those working-age members with many past years of service. “For many mature schemes,” says Mr Bowers, “the bulk of the potential pension debt has already been built up and can account for 80-to-90% of total liabilities.”

One way to manage this is to cap the financial risk by switching from equities to bonds. But with bond yields as low as they are now, this is fearfully expensive, and means that the company will not benefit from any bounce-back in the stockmarket.

The most draconian policy of all is to wind up the pension scheme altogether. That causes fury. At Maersk, a Danish shipping group that is doing this in a British business it acquired, employees may get as little as half the value of their accrued benefits. This is because current wind-up procedures secure pensions already being paid but offer limited protection to workers, even when the scheme meets the statutory safeguard known as the Minimum Funding Requirement (MFR).

The government is likely to introduce measures to stop solvent companies taking such a course. Meanwhile, many workers are being protected by the weakness of schemes that do not meet even the undemanding financial standard of the MFR, and therefore cannot be wound up at all. “Ironically that weak standard is protecting members,” says Adrian Boulding, pensions-strategy director of Legal & General. “I've sat with employers who say ‘I can't afford to continue, I can't afford to stop'. They can't afford to stop because they have to put money in now to close the scheme to existing members.”

All this suggests that even a sharp recovery in equity markets will not prevent further erosion of final-salary schemes, for all concerned. They were once called the gold standard of pension provision. But companies, as well as governments, can abandon gold. Britain needs a more fundamental rethink of its pensions policy than the government proposed in its feeble green paper last year.

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New universities

Pretty poly?

Mar 20th 2003
From The Economist print edition

Polytechnics turned into universities. Now they may be turning back

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THEY are ten years old, but in no mood to celebrate. The new universities (former polytechnics) are still in the higher-education second division, and the gap between them and their older-established competitors is about to get wider. Earlier this month, the funding council for England cut the research budgets of many leading ex-polytechnics, leaving them even further behind.

When the polytechnics were admitted to the universities' club in 1992, they aimed to challenge their more established competitors not just in teaching but also in research. But, despite grand new titles such as De Montfort University and the University of the West of England, for the most part it was only the designations that went up-market.

The secret to getting research cash, it turned out, was to pursue theoretical, “blue skies” projects. The new universities had previously specialised in applied research, and they found it hard to make the transition. To stay afloat, they began packing their classrooms with students. Even this has become more difficult in the past couple of years. The old universities are now allowed to take on more students, and some are expanding at the expense of neighbouring ex-polys. Leeds University, which has grown by more than a third over the past three years, received 5% more applicants this year. Leeds Metropolitan was down by the same amount.

Now there is more bad news. The government wants a diversified, American-style system of higher education, with a few elite research universities at the top, a smallish body of good-ish places in the middle, and a long tail of teaching academies. Next year, the big four (Oxford, Cambridge, Imperial, and University College, London) will each receive at least 15% more research cash than this year. Together they will get a third of the total. Meanwhile, two leading ex-polys, De Montfort and Oxford Brookes (formerly Leicester and Oxford polytechnics), will suffer cuts of 12%. They seem destined for the tail, even though Oxford Brookes's history department once got a higher research rating than its ancient university neighbour.

The new universities' best hope for extra cash is to go after poorer students. The government has taken to using higher education as a tool of social engineering, and favours institutions that enrol lots of working-class students. Mostly by accident, the ex-polys already do well on this score, and they may do even better in a few years' time, when fees for posher places rise.

Swapping research for bargain-basement teaching is hardly the stuff of the early dreams. David Stiles, who follows the topic at Cardiff University (an old, privileged institution), reckons that many new universities will have to expand their provision of two year, non-honours degrees. “This is more or less what the polytechnics were offering to begin with,” he points out. And those that cannot compete for students will have to merge or close.

Is this good for higher education? Concentrating research money is better than spreading it thinly. Diversity is good too. America's much-admired system includes places that aim for academic excellence as well as snooty private outfits, sports-mad state universities, black colleges and conservative evangelical Christian institutions. But all these discovered their niches gradually, rather than having them imposed by politicians.

Funnily enough, Britain used to have higher education institutions attuned to local demands. They were known as polytechnics. When they were founded, their distinctive mission was to provide the kind of

education and training needed locally. Over time, they developed differently. Some remained technical academies, while others pioneered new subjects such as media and communications. Although cash-strapped, at least they knew the local markets they served. That past is looking increasingly rosy.

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North Sea oil

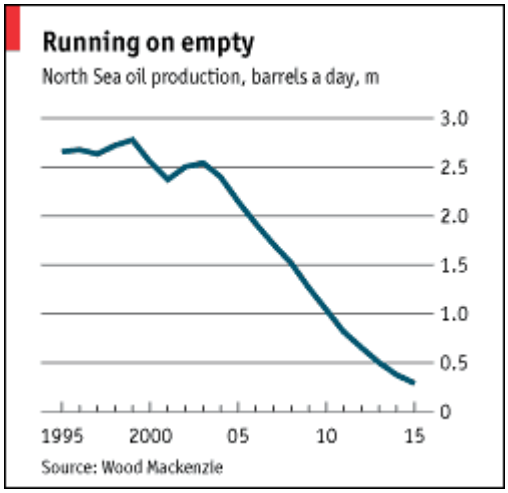
Oil's not well

Mar 20th 2003
From The Economist print edition

Higher taxes have made North Sea oil still less attractive

ANNOUNCEMENTS of job cuts at their North Sea operations this week from two big oil companies—BP and Royal Dutch Shell—caused scarcely a ripple of comment. Surprisingly little, perhaps, for the cuts are a good indicator of how low the North Sea now ranks on big oil companies' lists of priorities.

The North Sea's charms have long been fading; and it has looked still less alluring to big oil companies since the chancellor slapped extra taxes on the industry last year. With the government's finances strained, Gordon Brown's desire to raise extra cash was understandable, but the goose has started to hiss loudly, and the North Sea is looking an increasingly pricey place to do business.



North Sea oil is still important, and not just as a check on the vicissitudes of OPEC. The North Sea reserves are still roughly equivalent to the amount produced so far, according to the UK Offshore Operators Association. Presumably there would not still be 55 companies trying to get the stuff out of some 300 fields if there were not lots of profitable oil still to pump. It is also still a big source of income for the government, which, depending on the oil price, this year expects to pull in some £4.5 billion in taxes from North Sea oil.

Pundits have been predicting that the North Sea would run out of oil ever since Tony Benn, the then secretary of state for energy, turned on the tap in 1975. It has lasted for much longer than expected, in part because there was more around than had been thought, but also because technological advances made it more profitable to pump out oil that had been difficult to get at. Yet the bumper years are over. Production peaked in 1999; last year only 14 wells were drilled—the fewest since the area was first explored. The oil that is left is getting more difficult to extract.

Small wonder that the big oil companies are losing interest. “You're not making big finds in the North Sea, and none that provide the returns the explorers are looking for,” says Rhodri Thomas, an energy analyst at Wood Mackenzie, a stockbroker. Moreover, although the government gave some of the money back, last year's tax hikes will still cost the industry some £8 billion by 2010.

In the past few months BP has sold some fields to smaller competitors. Like others, it is focusing on Russia, West Africa, and deep wells in the Gulf of Mexico which, politics permitting, offer the scale and profits they are seeking. Among other disposals, BP recently sold its Forties field to Apache, a largish independent. Smaller oil companies—which don't mind smaller fields—are also interested in taking fields off their hands. The Department of Trade and Industry is encouraging such moves, with, for instance, its “fallow-fields initiative”; but that won't make up for the money the Treasury has taken out of the North Sea through tax rises.

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Bagehot

Why Blair fears America

Mar 20th 2003
From The Economist print edition

The strains are showing in Tony Blair's partnership with George Bush

Get article background

TONY BLAIR'S magnificent speech in the House of Commons on March 18th was primarily intended to pulverise the doubters in his own party into voting for war. But for anyone paying close attention, there was a discomfiting sub-text: he is almost as worried about America as he is about Iraq.

Inevitably, Mr Blair spent most of his time explaining for the umpteenth time why Saddam Hussein had to be disarmed. But much of his speech was also a warning about the dangers of allowing the Americans to fight alone. If British forces were not sent into action, America would withdraw into an embattled and resentful unilateralism, he argued. By posing as a countervailing power to America, the leaders of France, Germany and Russia were peddling “a misguided and profoundly dangerous vision” that could only hasten America's detachment from the various multilateral bodies set up after the second world war.

Mr Blair contrasted this with the recent achievements of Britain's partnership with America: George Bush's renewed commitment to the “roadmap” for Middle East peace and his undertaking that, once the war was over, Britain and America would rebuild Iraq under UN auspices. “If our plea is for America to work with others, to be good as well as powerful allies, will our retreat make them multilateralist?” Mr Blair asked. “And what of the UN and the future of Iraq and the Middle East peace process, devoid of our influence, stripped of our insistence?”

Mr Blair does not usually boast about his leverage with Mr Bush. The danger, as he knows, is that if he brags about how much clout he has in Washington, he will have less next time he needs it. But as the prime minister has struggled to quell opposition to war within his party, he has felt compelled to use every last shot in his locker.

Few doubt that Mr Blair's urgings have had some impact on Mr Bush. But the uncomfortable truth is that, while the French deserve a good deal of the opprobrium that the British government has conveniently heaped on them, what also undermined British diplomatic efforts at the UN was the belief among other members of the Security Council that the Americans were just going through the motions until they were ready for war. And, as Mr Blair came perilously close to admitting, just because he and Mr Bush agree about the need to get rid of Mr Hussein and the weapons of mass destruction held by other dodgy regimes, they do not necessarily share a wider vision about how to make the world a safer place.

When Mr Blair declares passionately: “I do not believe there is any other issue with the same power to re-unite the world community than progress on the issues of Israel and Palestine,” he means it. Just as he does when he says that he attaches as much importance to the plight of the Israelis and Palestinians “whose lives are being devastated by the lack of progress in the peace process” as to the disarming of Mr Hussein. By contrast, Mr Bush, even when announcing his readiness to back a new peace initiative, cannot conceal the lack of enthusiasm that arises from having real responsibility for this difficult issue.

As for involving the UN in putting Iraq back together again, although Mr Bush will surely need all the help he can get, that too seems to sit uncomfortably with suspicions that the administration will hand out the most lucrative construction projects to American companies. For the Bush administration, too, needs to worry about its domestic political lobbies.

There may be trouble ahead

All this is awkward for Mr Blair. His belief that Britain can hope to achieve what it wants in the world only if American power is harnessed for benign purposes is a good deal more realistic than the Gaullist yearnings of Jacques Chirac and Dominique de Villepin: without American power and the willingness to use it, there would have been no tolerably good outcomes in Bosnia, Kosovo and Afghanistan. But he is also vulnerable to the brutal world view of Washington's neo-conservatives. Their definition of national interest and of how American military muscle should be applied in its pursuit does not sit easily with the prime minister's boy-scoutish enthusiasm for doing good deeds in a bad world.

For Mr Blair, much will depend on what lessons the Bush administration draws from the events of the past few months. Might, for example, Washington policymakers decide that America could have avoided being quite so isolated diplomatically had it paid more attention to its allies' sensitivities? Another possibility is that the administration's hawks, further emboldened by crushing military success in Iraq, will feel that their scepticism about the UN, NATO and anything that involves dealing with those curmudgeonly French and Germans has been amply justified by the experience of the past few months. The tedious business of alliance management might be junked in favour of fighting battles only with ad hoc “coalitions of the willing”. Still, that depends on how the Iraq battle goes, and on whether there actually are any further battles to fight.

If the former view prevails, Mr Blair will have been vindicated. He would like nothing better than to help America repair relations with the rest of the world. But if the hawks win, and battles do arise, his determination to stay close to America will mean a bumpy ride. Making up with Europe—in particular with President Chirac, who has not appreciated being depicted as Saddam's friend—will be fraught. Mr Blair is also likely to remain at odds with his party. When it came to the crunch this week, a majority was prepared to trust the prime minister, but Labour's suspicion of Mr Bush remains as intense as ever.

With that tricky parliamentary vote behind him, Mr Blair must hope he is over the worst. But his speech suggested otherwise: he fears that his difficulties may be only just beginning.

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America's airlines and the war

The darkest hour

Mar 20th 2003 | NEW YORK
From The Economist print edition

Reuters

Stark as it seems, America's airlines may face liquidation or nationalisation

Get article background

AS AMERICA'S airforce took to the skies this week to bomb Iraq, its commercial airline industry was struggling to stay airborne. Big network carriers such as American Airlines and Continental lurched closer to bankruptcy. This week, United Airlines admitted for the first time that its botched efforts to restructure itself under Chapter 11 of the bankruptcy code might fail, resulting in liquidation. Traffic is collapsing; United Airlines said that its international bookings were 40% down last week. If this were only an effect of the war, that would be bad enough. But some customers may simply be avoiding airlines that look like they might go bust, for fear of being left in limbo. Even if the air miles of frequent fliers might survive bankruptcy, flights booked directly on an airline that succumbs could be lost forever.

Add to that the doubling of jet fuel prices in less than a year. The Air Transport Association (ATA), an industry group, believes that war and the threat of terrorism could deepen the industry's losses to $10.7 billion this year, worse than the $7.4 billion they lost in 2002. Warning of chaos, the ATA says that “a forced nationalisation of the industry is not unrealistic.”

Naturally, the airlines have every reason to play up the crisis. Seeking deep wage cuts, airline bosses want to foster a more “realistic” view of their finances among the industry's union leaders. In Washington, DC, the airlines hope that panic will help them to secure more subsidies, less tax and “compensation” for billions of dollars in extra security costs. This week, the government hinted at a softer line when Norman Mineta, the transport secretary, said that he stood ready to help the industry in the event of war.

Without help, with the notable exceptions of the stronger low-cost carriers such as Southwest Airlines and JetBlue, all of the big network airlines are heading for bankruptcy within the next two years, says Samuel Buttrick of UBS Warburg, a Swiss bank. “And, for some, why wait?”

Terrorism, too

As airlines and travel agents reported a surge in cancellations this week, industry bosses were struggling to put a figure on the war's likely damage. In the wake of the Gulf war of 1991, seven American carriers filed for bankruptcy and four liquidated themselves. In 1991, airline sales fell by 12%, year-on-year, in the first month of fighting and by about 7% in the eight months after the outbreak of war. This time the losses may be far bigger as war coincides with a high risk of terrorist attacks.

One indication of what might happen is the further 3% decline in traffic that followed the government's decision in February to raise its domestic terrorist alert to “code orange” (indicating a “high risk of terrorist attacks”). International traffic—above all, business travel—is particularly at risk. The ATA reports that advanced bookings for international flights fell by more than 20% after the code orange alert in February. Any (God forbid) successful terrorist attack on American soil, meanwhile, would worsen the calculus yet more. The ATA, for instance, guesses that a terrorist attack of the same sort of magnitude as those on New York and Washington in September 2001 would deepen the industry's losses by a further $2.3 billion this year, and result in job losses running into the hundreds of thousands.

As for fuel costs, since February 2002 the price of jet fuel has risen from 60 cents to more than $1.20 a gallon. The airline industry says that it loses up to $180m a year for every extra cent added to the cost of fuel. Many airlines routinely hedge themselves to a degree against rising fuel costs: Southwest Airlines, Northwest Airlines and Delta Air Lines are all reported to have reasonable protection from rising prices, at least for now. But their worsening finances increasingly hamper their ability to hedge themselves. Who would willingly enter into long-term financial contracts with an industry in which more than $100 billion of debts perch atop shareholders' equity which the market now values at less than $2 billion, and falling? (Already the debt markets are practically closed to the airlines. Citing war, this week the big credit-rating agencies were preparing for further downgrades of airline debt.)

To judge by the airlines' share prices, the stockmarket seems to be betting on imminent mass bankruptcies. Barring a collapse in the price of oil (to, say, $10 a barrel), or a sudden, inexplicable, surge in the appetite of business people for air travel, the only way that most of the American airlines not yet in it can now avoid Chapter 11 is to renegotiate their labour contracts before they go bust. America's biggest airline, American Airlines has prepared a glide path down to Chapter 11 by laying out a cost-cutting strategy and a financing plan before it asked its workers to agree to wage cuts. It says it needs to cut its wage bill by 21% to stay out of bankruptcy. United, by contrast, belatedly doing everything backwards as it heads from Chapter 11 to Chapter 7 liquidation, wants to cut employee costs by 36% (or $2.6 billion a year). Delta and Northwest each say they have to make deep cuts as well.

On the face of it, union bosses ought to be in the mood to talk. A poorly paid job is better than no job at all, and United's talk of liquidation—together with new forecasts showing that it expects to incur losses of $877m in the present quarter alone—brings the prospect of tens of thousands of permanent job losses one step closer. Once bust, American firms can in any case ask the bankruptcy-court judge to void existing labour contracts, a step that United is already threatening to take. Union leaders ought to be able to strike better deals for their members out of court, argue some industry bulls. Now that all hope is otherwise lost, goes this reasoning, the unions will quickly come to the table. If that happens, the airlines' share prices could quickly double or triple. As pigs fly.

Mr Mineta's comments offer at least a glimmer of hope of a government rescue, should the industry's fortunes worsen sufficiently. This complicates tactics on both sides of the table. America's Air Transportation Stabilisation Board, set up after the terrorist attacks of 2001, has already bailed out several airlines with soft loans. Perhaps United's hesitant progress through the bankruptcy courts reflects the undue emphasis its new management team has put on winning government help. The mere possibility of more public money, meanwhile, will probably encourage unions to hold out for longer.

As if all that were not bad enough, another discouraging piece of news comes from America West, a mid-sized airline that the government rescued last year. As America went to war this week, America West's pilots overwhelmingly rejected a proposed contract which, while reducing job security and retirement benefits, amazingly included an 11% salary increase. Union leaders said that they liked the look of the raise, but that what they really needed was a defined-benefit pension plan, not the defined-contribution plan that management had offered them. Just so.

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Motor homes

Easy riders

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Life on the road during wartime

EVEN when he's less crazy than usual, Jack Nicholson hardly represents the typical American senior citizen. But in one sense Mr Nicholson—or more precisely his character in the Oscar-nominated movie "About Schmidt"—does something to which many retirees aspire: he escapes in a giant motor home. His Winnebago features so prominently in the film it almost deserves credit as a co-star.

The farther west one goes in America, the more often Winnebagos appear: huge motor homes barrelling down the highway with senior citizens at the wheel. They are living the RV (recreational vehicle) lifestyle, a curious mix of free-spirited individualism and comfort that is enjoyed largely by the retired, incorporating a ceaseless round of fishing, visiting grandchildren and patronising craft fairs.

In these days of terror alerts and urban jitters, surely the opportunity to escape on the open road should have more appeal than ever? It appears not. Rather than persuading them to prepare to flee to safer parts, the drumbeat of war and an increasingly fragile economy have led consumers into a mixture of paralysis and hunkering down. This has put the brakes on Winnebago Industries, the market leader in motor homes. On March 18th Winnebago said that sluggish demand and rising inventories had led it temporarily to schedule four-day working weeks at its factories, only a week after it opened a new plant that boosted capacity by 30%. The firm's shares fell that day by nearly 18% to $24.45 (over 50% below its high last year), despite a rise in profits in the quarter ending March 1st, by 31% from the same period a year earlier. Last month, the Recreation Vehicle Industry Association had predicted a slowdown in RV shipments this year, after a dramatic rise in sales in 2002.

This has taken the shine off what had been a remarkable revitalisation of an American icon. Based in the farm country of north-central Iowa, Winnebago is a conservative, cost-conscious firm whose top executives average 26 years with the company. Seven years ago, the firm was on its knees, thanks to a series of ill-fated forays into products ranging from vending machines to communication satellites. Following the death in 1996 of John Hanson, its founder, the firm returned to its roots. It shed loss-making businesses and concentrated on making motor-homes under the Winnebago, Itasca, Rialta and Ultimate brands. Such innovations as the first fuel-efficient, front-wheel-drive motor-home (with a Volkswagen chassis) boosted sales.

Despite the current slowdown, the firm is still optimistic that long-term trends portend a healthy future. Already around 7m American households own motor-homes, according to a University of Michigan study. Typical buyers come to Forest City in droves (about 10,000 every summer) to tour Winnebago's main plant, dubbed Big Bertha. About 80% are aged over 50—some 60% are retired—and 90% are married. But what excites Winnebago is the changing buyer profile. Increasingly, it seems, a mobile home appeals to younger couples with kids, who presumably see it as the logical step up from a sport utility vehicle.

With prices from $50,000 to $300,000, Winnebagos are not cheap—although the purchase can, as a second home, be written off against income tax. But another worry now is the high price of petrol. Winnebagos average only eight miles to the gallon. The outlook for this icon of the road may depend, in large part, on what impact war has on oil prices.

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The reconstruction business

Cheney's cronies?

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Rumours are rife about who will make money out of rebuilding Iraq

IT WAS an inevitable conspiracy theory *du jour*: if the war goes well, the real winner will be Vice-President Dick Cheney's former firm, Halliburton, and other Bush administration cronies. Newspapers have reported that Halliburton has secretly won gigantic contracts for work in a post-war Iraq and that were America to run Iraq, more deals would follow.

The Bush administration has been keeping mum about such matters. Discussing victory plans before the shooting had even begun would be widely viewed as unforgivable hubris. That said, it would also be irresponsible for the administration to ignore the reconstruction needs of a country that it intended to deconstruct.

If, as rumours suggest, bids have been solicited for reconstruction work only from American companies, that would not be illegal or even unusual, especially on defence-related contracts—though it would not be good politics. Excluding the French may be understandable in the present circumstances—but surely not the British firms whose complaints have been widely reported in the press.

Actually, the suspicion that American firms have stitched up the lucrative contracts to come in Iraq is probably ill-founded. The administration says that contractors from other countries, including Iraq, will be included as consortium members (and so will profit) when reconstruction starts. The contracts discussed so far—for about $900m of work—are peanuts compared with the billions of dollars that will eventually be up for grabs.

Given the particular sensitivity of Halliburton, what can the Bush administration do to allay suspicions of cronyism? The White House has already been burnt once when, last year, it appeared to defend questionable accounting practices at Halliburton during Mr Cheney's tenure which are now under formal investigation.

Alas for the administration's reputation, there may be no better qualified firm for many of the jobs that will need to be done. Halliburton has one main challenger for the title of the world's leading oil-services firm: Schlumberger, which is, ahem, French in origin. But when it comes to military outsourcing, Halliburton's Kellogg Brown & Root division has a more impressive record than any of its rivals.

During the second world war, Brown & Root built the Corpus Christi naval air station in Texas. More recently, it has built detention centres in Guantanamo Bay, Cuba, to hold suspected terrorists, and has men on the ground in Afghanistan and even Kuwait. If that too hints at cronyism, remember that the firm has flourished under Democrat presidents such as Bill Clinton. It owns and runs some British defence facilities, including the Devonport naval shipyard, provides logistical support and maintains submarines for the Royal Navy.

In short, it is hard to argue that Halliburton is an otherwise unqualified firm that has won business only because of its political connections. Back in 1999, when he still ran Halliburton, Mr Cheney boasted in an interview with *The Economist* that “the first person to greet our soldiers as they arrive... and the last one to wave good-bye is one of our employees.” He was talking about the extensive role, including managing the airfields where soldiers arrived, that Brown & Root played in the Balkans. It will be no surprise if it plays the same role in Iraq. That would be good news for Halliburton's current management and maybe even for Iraq, but a political headache for its former boss.

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Consumer goods

Mr Lafley's makeover

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Is Procter & Gamble's boss right to buy beauty companies?

ALAN “A.G.” Lafley likes to tell you he is the only person he knows who does not use hair dye. “Even my 16-year-old son streaks his hair,” says the soft-spoken, white-haired boss of Procter & Gamble. That Mr Lafley, a man so short on personal flair that *Fortune* dubbed him “the un-CEO”, is trying to sound hip is no accident. He is attempting to transform the world's largest consumer-goods firm from a lumbering soap powder and nappies giant into a beauty business to rival France's L'Oréal. On March 18th, P&G bought Wella, a German beauty firm, for *euro*6.5 billion ($6.9 billion).

When Mr Lafley became boss in June 2000, P&G was in turmoil, thanks to the attempts of his predecessor, Durk Jager, to make it an innovative growth machine more akin to a drugs firm. Mr Lafley refocused the firm's marketing on to its established stable of billion-dollar brands, such as Tide detergent and Pampers nappies. He simplified, controlled costs and restored stability to the “proctoids”—the army of conservative, starched-shirted marketing and middle managers on whom P&G still depends. In the past 18 months, the firm has far exceeded analysts' expectations: its shares have even risen as it has steadily progressed towards its growth targets of 4-6% for sales and double-digit profits.

But Mr Lafley will soon face the same problem as Mr Jager. How do you keep a $40 billion giant growing faster than inflation? Mr Lafley's answer is getting into beauty. Wella, which supplies hair salons with styling products, is P&G's largest acquisition and its second big beauty buy, following the purchase of Clairol, a hair-dye group, in November 2001.

Wella's underlying sales are growing by 6% a year. Whereas P&G is strong in America, Wella's focus is on Europe and Asia. By pushing the German group's retail products through its global distribution chain, P&G hopes to accelerate its growth. But does P&G really understand the rather elusive beauty business? Although it has been successfully integrated into P&G, analysts note that Clairol lost market share against L'Oréal and Revlon. And P&G's Max Factor lipstick and cosmetics brand has suffered from underinvestment.

Mr Lafley is said also to want to buy Beiersdorf, owner of the Nivea skin-cream brand, now worth around *euro*12 billion. But acquisitions are a risky alternative to delivering real internal growth. Many firms have come unstuck that way, with accounting messes to prove it. The fate of Clairol and now Wella will determine whether Mr Lafley deserves the faith that everyone has put in him.

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Canal Plus

Minus

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A television company in trouble

WHAT has gone wrong at Canal Plus, a French pay-television group and national icon? Last week's announcement of plans to shed 443 jobs, or about 15% of its payroll, prompting this week's strike, came soon after Bertrand Meheut became its third boss in ten months. It is losing money and subscribers at its flagship channel. And there is constant speculation that its parent, Vivendi Universal, a troubled media conglomerate, is preparing to sell it.

While the efforts by Vivendi to attract suitors for its American entertainment assets—which saw Barry Diller quit as its interim boss on March 19th—grab the headlines, Canal Plus is currently its single biggest drain. In 2002, it made an operating loss of *euro*325m ($306m), the only Vivendi division to make an operating loss—although, thanks to massive write-downs, Vivendi made a total loss of *euro*23 billion.

Among the troubles now facing Canal Plus, three stand out. Under Jean-Marie Messier, Vivendi's discredited former boss, it tried to become a pan-European pay-TV operator. Most of its losses came from operations in Italy, Benelux and Scandinavia. There were few economies of scale. Rights to movies and sports, much of the prime content that Canal Plus uses to lure subscribers, are negotiated country by country. Canal Plus is now retreating from these misadventures back to its French origins: it has agreed to sell Telepiu, its Italian business, to Rupert Murdoch's News Corporation, and is trying to sell its operations in Benelux and Scandinavia.

A second failing has been to run a sprawling, unfocused business. Unlike BSkyB, Britain's leading pay-TV operator, which has fully integrated content and distribution, Canal Plus group comprises some 300 different companies (which Mr Meheut wants to cut by half within a year).

And whereas its CanalSatellite business has grown—adding 220,000 subscribers last year—its Canal Plus channel lost a net 70,000 subscribers in 2002, thanks in part to competition from TPS, a rival French satellite-TV operator. Two-thirds of its 4.5m subscribers receive the channel through a scrambled, over-the-air, analogue signal, not as part of a broader cable or satellite package. So the channel cannot extract the sort of extra revenues from, say, digital interactive services that BSkyB has done. Revenues are being squeezed while programming costs—some 60-70% of the channel's cost base, according to Mark Harrington of Bear Stearns—are soaring.

A third, looming, problem concerns the quality of content. The Canal Plus channel still shows some of the edgy, counter-cultural TV which, with its support for French cinema, made its name. Yet some staff feel this tradition is under threat. Mr Meheut, a friend of Jean-René Fourtou, Vivendi's current boss, is a former agro-chemicals boss with no background in TV. Staff have nicknamed him “pesticide”.

Worse, Warner Brothers and Disney each recently sold pay-TV rights for their movies to TPS rather than to the Canal Plus channel, where they have been a staple. After a challenge from TPS, the French competition authorities have frozen the *euro*480m deal secured late last year by Canal Plus to show first-division French soccer.

Mr Meheut insists that Vivendi will not sell Canal Plus. The job cuts will trim costs and he will revive editorial content in the autumn schedules. But time is short, and Canal Plus group has *euro*5 billion of debt and is sure to drain cash this year—something Vivendi can ill afford. The smart money is on an eventual sale to TPS.

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Japan's keiretsu

Undone

Mar 20th 2003 | TOKYO
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Whither Japan's corporate groups?

Get article background

ON MARCH 28th, Mizuho, the world's largest bank, will officially complete its drive to raise a record-breaking ¥1.1 trillion ($9.2 billion) of fresh capital from investors. Mizuho is expecting to make a net loss of ¥2 trillion in the year to March 31st, the largest in Japanese corporate history. Its share price has fallen by two-thirds in six months. Yet it took the bad-debt-riddled bank less than two months to persuade some 3,400 investors to take up its latest offering of preferred shares.

Much of the money will come from Mizuho's corporate buddies and borrowers. A list of the top 70 providers of Mizuho's new capital is a “Who's Who” of corporate Japan. Many of them have historical ties to one or more of the three banks— Dai-ichi Kangyo Bank (DKB), Fuji Bank, and the Industrial Bank of Japan (IBJ)—which merged last year to create Mizuho.

Explaining to their own shareholders why they bought Mizuho shares could be tricky. Some firms may face lawsuits. Many already held shares in the bank, and are likely to record big losses in their equity portfolios this year thanks in part to Mizuho's tumbling share price. Canon, a copier and printer company, which plans to buy ¥5 billion-worth of new shares in Mizuho, is reported to have received calls from investors complaining that it should increase its dividend instead.

Does Mizuho's fund-raising feat signal that Japan's *keiretsu*, the shadowy business groups that have traditionally bound banks, trading houses and industrial firms into loose-knit conglomerates, are alive and well? As the big banks at the centre of these groups have merged, the number of *keiretsu* has dropped from six to four.

The merger of Sumitomo Bank and Sakura Bank married the Sumitomo *keiretsu* with the equally mighty Mitsui family. Mizuho combined two slightly less tribal clans: the Fuyo group, headed by Fuji Bank, and a smaller group led by DKB. Many firms that bought fresh shares in Mizuho are indeed former Fuyo or DKB group firms. Some, such as JFE Holdings, a huge steel maker created by the merger of a DKB group firm with its Fuyo group counterpart, and Taisei, a Fuyo group construction firm, admit that old ties remain strong.

It is widely believed that Canon, also of Fuyo, agreed to buy more Mizuho shares largely to repay an old debt to Fuji Bank, which rescued Canon when it fell into trouble over 30 years ago. Hitachi, another Fuyo group stalwart, says it is providing ¥5 billion to Mizuho because it hopes to get large orders for IT from the bank in future—as well as to help out the bank that helped it through hard times.

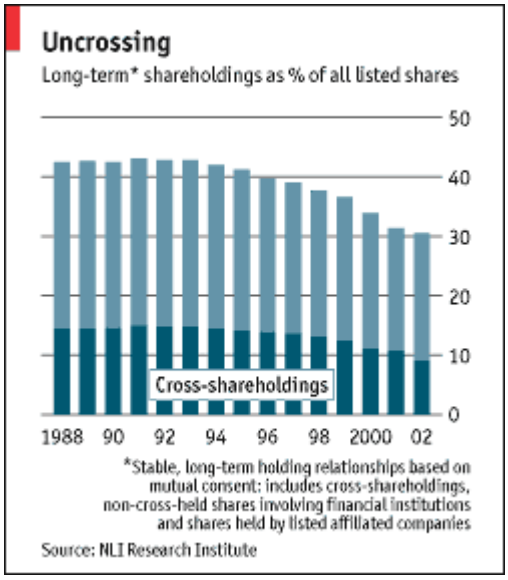
Yet for many firms, which rely on bank loans to keep their operations running, this was less a show of loyalty than a way to keep their biggest lender in business. Firms that refused Mizuho might soon have found their credit lines under review—though this threat may not have been made explicitly. “Refusing would be mutually assured destruction—that's why [the process] works,” says Alexander Kinmont of Nikko Salomon Smith Barney.

Hiroshi Okumura, author of “Corporate Capitalism in Japan”, believes that Mizuho's capital-raising shows that *keiretsu* ties are weakening. Links between group firms have been eroding for years: witness the dramatic fall in the proportion of cross-shareholdings in Japan over the past decade (see chart). Mr Okumura says that the Fuyo and DKB groups in effect consist of

20 or so core firms, whose presidents hold chummy monthly meetings.

That Mizuho had to turn to 3,400 firms to raise capital is a sign that these core *keiretsu* buddies are no longer willing (or able) to provide as much money as in the past. And then there is Nissan Motor, a carmaker and former Fuyo group member, whose boss, Carlos Ghosn, has decided not to hold shares in non-core businesses and declined to buy shares in the bank.

Mizuho's efforts also reflect a change in the role of the *keiretsu*, says Peter Tasker of Arcus Investment in Tokyo. In the past, the *keiretsu* were (at least in theory) a source of strength: their monthly meetings helped group firms to exploit some of the synergies of a conglomerate without the massive inefficiencies that come from merging different corporate structures. But these days *keiretsu* ties are no longer constructive. “They are being used to contain damage, and are a source of weakness as they slow down change,” says Mr Tasker.



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South African tourism

The champions

Mar 20th 2003 | CAPE TOWN
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Not of cricket, of tourism

AP

Potential tour guide?

WHEN sports-mad South Africans sit down to watch the cricket World-Cup final on March 23rd, they will mourn their team's dismal play and early exit. The hosts were so poor that the captain, Shaun Pollock (right), has already been sacked in disgrace. Other African teams, Kenya and Zimbabwe, outshone them. But there is some compensation for failing with bat and ball. The cup lured 20,000 foreign cricket fans to the country. One billion TV viewers, many in Asia, were shown regular 30-second promotional vignettes of South Africa's wonderful beaches, game parks, mountains and cities. As intended, the cup has been a big, cheap marketing opportunity for tourism in the country.

But the industry was booming long before the first ball was bowled in Cape Town. Last year 6.4m people came to South Africa, a 20% rise in overseas arrivals (excluding visitors from the region), compared with 2001. That far exceeds the 3% average growth worldwide, says the World Tourism Organisation. “This is the highest growth rate any tourist destination achieved last year,” boasts Valli Moosa, minister for tourism. In contrast to the war and recession-inspired depression of the rest of the global tourism industry, he still expects further growth this year.

Why is South Africa doing so well, while other countries struggle? One factor, until recently, was the slide of the rand, which created incredible value for foreigners. But in the past 12 months the rand has easily regained its former strength, rising by 45% against the American dollar.

Perhaps the industry is flourishing partly because tourism is doing so badly elsewhere. Some tourists are switching to relatively remote South Africa to avoid likelier terrorist targets and the Middle East. When European airlines cut transatlantic flights after September 11th 2001, aircraft were moved to the Johannesburg-London route. Last year even travel-shy Americans increased their trips to South Africa by 9%. Visitors from Britain and Germany arrived in vastly greater numbers.

Earning a reputation for safety is a remarkable feat for a country where some 20,000 murders occur each year, and rates of hijacks, rape and car-crash deaths are terribly high. Are visitors deluding themselves about safety? No, says Cheryl Carolus who heads SA Tourism, a body that promotes the country: “The sad reality is that crime affects poor people, not tourists; we had millions of visitors last year with only a tiny number of incidents.” Most road deaths, too, involve rickety commuter buses, not luxury coaches.

But the best explanation for South Africa's success is that it has been getting the basics right. The government does not subsidise tourists' air-tickets (unlike Thailand, says Ms Carolus). But the state-owned airline is opening up to more competition, and buying a new, bigger fleet of aircraft—so seats are cheaper and more plentiful. The government estimates that every eight tourists create one permanent job, and so is promoting tourism heavily.

And niche markets are being developed. South Africa is a regular venue for enormous United Nations meetings and pan-African gatherings. Shoppers from other parts of Africa flock to Johannesburg's huge malls. A travel agent in Lilongwe, Malawi, for example, advertises a $240 day-return flight to the “city of gold” 1,500km (940 miles) away. Danes and Swedes now fly direct to golf courses in South Africa; a Scandinavian hotel chain is building a set of resorts for them. And sporting events should continue to help. After hosting the rugby and cricket cups, South Africa is the leading candidate to host the 2010

soccer World Cup. Do not expect the national team to win that one either, but hotels and restaurants should benefit. And next? The Olympics?

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Corporate malfeasance

Scrushed

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Another big accounting scandal

HAVING made themselves personally accountable for their books last year, America's bosses may be about to find out exactly what they signed up to. Last summer, after accounting scandals at Enron, WorldCom and other big firms, the Securities and Exchange Commission (SEC) passed new rules forcing chief executives and chief financial officers to sign off personally on company accounts. Congress then passed the Sarbanes-Oxley act, imposing criminal penalties—hefty fines and prison—for fraudulent certifications. The idea was that forcing the boss to swear to his numbers would make him take his duties more seriously and thus help to restore investor confidence.

Now, these rules are being put to the test. On March 19th the SEC charged HealthSouth, America's biggest provider of outpatient surgery and other healthcare services, and its boss, Richard Scrushy, with fraudulently inflating profits by at least $1.4 billion since 1999. Mr Scrushy had sworn to the accuracy of the firm's books on August 14th, the last day of the SEC's deadline. The SEC says that Mr Scrushy's case is the first test of the new certification rules.

HealthSouth's former chief financial officer, Weston Smith, has already pleaded guilty to fraud during his tenure at the firm, and has implicated his boss. Mr Scrushy has been charged with personally instructing senior personnel and accountants to overstate earnings and with profiting from inflated profits via share sales. According to the SEC, during 1999-2002 at quarterly “family meetings” Mr Scrushy directed senior management to fix HealthSouth earnings so that they at least met Wall Street's forecasts. Shortfalls were plugged through altered or entirely fictitious accounting entries, backed by falsified documents. But Mr Scrushy also faces a separate charge of lying under oath regarding company accounts—which could result in fines of $5m and 20 years in prison for wilfully committing fraud.

The SEC and the Justice Department (which is pursuing a separate, criminal investigation into HealthSouth) must now prove that Mr Scrushy knew of the fraud when he took his oath. That may not be easy. Last summer, bosses spent many fruitful hours with their lawyers discussing how to limit their risks. One tactic: getting divisional heads to certify their accounts before passing them up to the boss's office. But an SEC official points out that it is the boss who is now ultimately responsible for a firm's accounts: “Simply saying that it is someone else's problem isn't enough.”

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Corporate finance

A (going) private matter

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From The Economist print edition

To be a public company, or not to be?

THREE years ago, at the peak of the internet bubble, going public, ideally with a headline-grabbing initial public offering (IPO) of shares, was all the rage. Now, a growing number of public companies are having second thoughts. In 2002, 66 American firms de-listed and "went private", up from 35 in 1999, the peak year for IPOs, according to Thomson Financial. But when does going private make sense?

A new study by Scott Larson, a finance professor at National-Louis University in Chicago, argues that public firms should go private when the costs of being public significantly outweigh the benefits—a seemingly simple answer, but one that curiously passes most bosses by. While firms routinely scrutinise the cost of borrowings—swapping expensive debt for cheaper loans when interest rates drop, for instance—they do not often apply this type of stringent thinking to the costs of being publicly listed. Mr Larson thinks this should change.

He divides the cost of being public into two main components. The first includes administrative expenses such as annual listing fees and compliance costs. The second bit is the cost of equity—the extra return that shareholders demand from a public company above what they would expect to receive from investing in risk-less government bonds, which must be compared with the return demanded by investors in private equity.

Together, says Mr Larson, these elements comprise the costs of being public. And they are growing. The Sarbanes-Oxley act, passed in the wake of accounting scandals at Enron and other firms, introduced a slew of new regulations that raised compliance costs—such as the right of the board of directors to hire independent advisers, paid for out of company coffers. Estimates of the additional costs for a public company range from a conservative $1m to $3m, depending on the size of the firm. The cost of public equity, which in normal times is lower than that of unlisted private equity because investors value the liquidity that comes with being traded on an exchange, has soared for firms, because research analysts and run-of-the-mill investors have shunned them, making the market for their shares painfully thin. In today's depressed stockmarket, it is almost impossible for such firms to issue fresh equity or for investors to sell large blocks of shares in them without accepting a big discount to the quoted price.

Small firms, especially ones that went public late in the bubble, when public equity was almost free capital, are increasingly marginalised in the public markets. Meanwhile, many sources of private equity—such as private equity funds, top management and "angel" investors—have money and have not shared in the public crisis of confidence about investing in shares.

In an analysis completed just two months ago, Mr Larson identified 126 such companies that, by his reckoning, are prime take-private candidates because they are being severely penalised by the market, in terms both of their high public equity costs and of their valuation (their shares trade for less than the company would fetch if it were liquidated). Since he first calculated this list, eight of the firms on it have gone private—apparently confirming the validity of his message.

There are two main reasons why private equity may now be a cheaper option for these firms. Private equity investors take controlling stakes and so can influence corporate strategy in a way that passive public shareholders cannot. And they gain access to "insider" information denied to public investors.

The case for going private is less clear for a second list, of 20 larger firms, recently compiled by Mr Larson. These firms also suffer from the high costs of being public, trade cheaply (although not below liquidation values) and—in the cases of Circuit City and Celera, for example—appear to have been misunderstood by the market. At the least, he says, these firms should investigate carefully whether

remaining public still makes sense.

Of course, going private may not be straightforward, especially if public shareholders do not want to co-operate. The firms on Mr Larson's list of 126 that have taken themselves private in the past two months had to pay between 40% and 80% above the price at which their shares had been trading to buy them back; public shareholders sniffed an opportunity to extract some extra cash from a clearly committed purchaser. But the premium was deemed a price worth paying to escape the scrutiny—and costs—of the stockmarket.

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About sponsorship

Roland Bird

Rara avis

Mar 20th 2003
From The Economist print edition

A remarkable colleague

Mr—and Mrs—Bird at work

WITH the passing of Roland Bird, who died this month at the age of 95, *The Economist* has lost one of its last personal links with the era before the second world war. Roland joined as “Stock Exchange assistant” in 1933, and rose to become business editor and then deputy editor in the 1940s. In the 1960s he moved into management, becoming managing director in 1969 and retiring from the board only in 1978. A man of parts, his great achievement at *The Economist* was to transform its business pages. In her history of the newspaper, “The Pursuit of Reason”, Ruth Dudley Edwards says that, “Roland Bird created modern business journalism, as opposed to City [of London] or economic journalism: it was not until the 1960s that the *Sunday Times* and gradually other newspapers began to emulate *The Economist* in this.”

Roland came from a poor background. He left school at 16 to join the accounts department of a Northampton shoe factory, but became interested in economics through reading John Maynard Keynes. This led to part-time study at a technical school and then evening attendance at the London School of Economics, working as an accountant by day. On graduating with “a very distinguished first”, he responded to a small ad in *The Economist*, where he was to remain for the rest of his long working life.

Roland's career spanned both the editorial and the management sides of the newspaper. It also spanned the development of *The Economist* from a small, influential but somewhat esoteric publication to a much larger, more commercially conscious undertaking. He had strong views, but they were always expressed with loyalty and kindliness. In 1954 a recruit wrote of his new boss: “[He] goes about his work quietly, without fuss, and assumes you will do the same; doesn't talk all the time but when he does say something it's usually a peach of prose.” Remembered with fondness by the many people he helped, he was, in short, a remarkable colleague.

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Face value

After the musketeer

Mar 20th 2003
From The Economist print edition

Does the sudden death of Jean-Luc Lagardère mark the end of the swashbuckling era in European business?

Reuters

THEIR deaths each knocked talk of impending war off the front pages in their home country. They had much in common. After the death in January of Gianni Agnelli, head of the Italian clan that ran the Fiat group, the unexpected demise of Jean-Luc Lagardère on March 14th removes another glamorous character from the European business scene. Though his private life was not in the jet-set league of Agnelli in his pomp, Mr Lagardère cut a dashing figure in Paris, where he was famous for his connections in high places. As other French businessmen fell from grace, from Bernard Tapie to Loïk Le Floch-Prigent (a former boss of Elf Aquitaine now on trial for alleged corruption) to Jean-Marie Messier of Vivendi, he seemed unstoppable.

He built the world's biggest magazine business, with over 200 titles ranging from *Elle* to *Paris-Match*; his last publishing deal (if allowed by competition authorities in Brussels) will make Lagardère Europe's biggest book publisher by adding Vivendi Universal Publishing to Hachette, Fayard and Stock.

Business superstars both, Agnelli and Lagardère were brothers less in their personal histories than their *modus operandi*. Mr Agnelli inherited a fortune and a business empire, which he built up before bowing out and (mostly) leaving it to decline. Mr Lagardère was of Gascon peasant stock, despite bearing the name of a famous (fictional) musketeer. He swaggered through French business, running Matra, a space and missiles group—where he started a niche car business—and building a publishing and media empire. He then masterminded the privatisation of Aerospatiale and presided over the birth of EADS, the European aeronautics defence and space firm.

Both magnates were adroit legal strategists, using complex networks of private firms and partnerships to wield power over firms out of all proportion to their personal investment. The legal device favoured by Mr Lagardère was the *commandite par actions* (a sort of managing partnership, also used by the Michelin family to control its tyre giant). Thus, Mr Lagardère personally owned 0.59% of EADS shares—yet he in effect controlled a 15% stake, giving him great clout, including becoming co-chairman.

Above all, the two men were masters of playing the political system—a valuable talent anywhere, but particularly useful in continental Europe's statist version of capitalism. Both men used dynastic ties and political connections to control and develop their empires. Whatever Mr Agnelli wanted of Italy's government he got, from grants to protection from Japanese imports. Mr Lagardère played the game equally well. Like a true musketeer, he met an occasional set-back with a swift, aggressive riposte.

In 1981 he bought Hachette, a sleepy family-owned publisher, with help from the-then President of France, Valéry Giscard d'Estaing, who blocked a rival bid. After the new Socialist government began to nationalise everything, Mr Lagardère somehow got it to leave Matra partly in private hands: his.

Arguably his finest hour began when the state-owned Thomson group was privatised into the hands of a rival in 1996, infuriating Mr Lagardère. He soon got himself back in favour with the socialist government, which turned to him when it wanted to privatise Aerospatiale, part of the Airbus consortium. Mr Lagardère's once-closest lieutenant, Noël Forgeard (a favourite among a band of young Turks known as the “Lagardère boys”), had deserted him to run Airbus for the rival Aerospatiale. No sooner had Matra taken control of that firm than Mr Lagardère persuaded Jürgen Schrempp, boss of DaimlerChrysler, to merge his aerospace subsidiary (along with a tiny Spanish firm, CASA) to create EADS. Another Lagardère boy, Philippe Camus, was put in charge of this giant, much to the chagrin of Mr Forgeard.

Now, just as Fiat is in a dire condition following Agnelli's withdrawal and eventual death, so Mr Lagardère's empire may find itself in trouble without its master swordsman. For all the talk of European—especially French—capitalism being freed from government shackles, who can seriously doubt that Lagardère would have benefited greatly from its founder's political skills—and the rest of his business acumen— in the battles ahead?

Breaking up his empire

The task of guiding the firm now falls to Mr Camus and to Mr Lagardère's son, Arnaud. The young Lagardère is widely regarded as a bit of a lightweight compared with his father, and interested only in the media business. While this has avoided the excesses that ruined the Vivendi empire of Jean-Marie Messier, this week Mr Lagardère's group had to write off *euro*278m ($294m) because of losses on its internet business. The group had an additional write-off as it closed down its car business, which had struggled since losing its sub-contract to build Renault's hugely successful Espace minivan, which Matra had invented.

The two new bosses will face enormous pressure to break up the synergy-free magazines-to-missiles group, which was created largely to help the late Mr Lagardère escape from one of his characteristic scrapes. After missing out on the privatisation of the TF1 television channel in 1987, he snapped up another channel, *LA CINQ*, three years later, only to see its disastrous performance and huge debts drag his media business to its knees. Mr Lagardère's answer? Merge the aerospace business, Matra, with Hachette, so that the cash flow from government missile orders mopped up the financial mess over time.

A break-up would, of course, be another triumph for American capitalist thought over traditional French ways: more efficient, perhaps, though less swashbuckling. Had Mr Lagardère lived, he might have spent this year negotiating with the French government to buy its stake in another defence group, Thales, for EADS—which would have made it a strong all-round competitor to global defence giants such as BAE Systems or Boeing. It was not to be. Farewell to the days of one for all and all for one.

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Investment

In search of those elusive returns

Mar 20th 2003
From The Economist print edition

Despite this week's stockmarket rally, tumbling equity prices and bond yields have sparked a fierce debate over asset allocation

EARLY this week the markets were telling themselves that the second Gulf war was as good as won. Equities rallied; bond and oil prices fell; gold hardly flickered. But that did not help investors, such as insurance companies and pension-fund managers, with their thorny conundrum: how to allocate their assets over the long term?

The accepted wisdom, that equities offer superior returns in the long run, has recently looked a little hollow (see chart). Forecasts for the so-called equity risk premium (the return in excess of the yield on government bonds demanded by investors to compensate for the extra risk of holding equities) range from a traditional 5% to as little as 2.4% a year. Such a thin premium may look on the low side to many investors, given that share prices could tumble again and that more corporate misbehaviour may be uncovered.

Yet most of the alternatives to pure equities—bonds issued by governments (in developed or emerging markets), municipalities or companies; asset-backed securities; funds of hedge funds; bonds indexed to equities or to credit risks—all seem loaded with their own mixture of downside risk and lacklustre returns. What can an asset manager do, apart from hiding under the duvet?

There is plenty of advice available. For example, the amazing foresight of the pension fund of Boots, a British retailer, which moved all its assets into bonds in 2001 to miss the worst of the equity slump, is now inviting criticism. “Why sacrifice around 3% a year so that trustees can sleep peacefully at night? That's a lot of money compounded over 25 years,” argues someone who thinks he knows better.

The reason is that, for some pundits, equities have lost so much value that they are beginning to look cheap. In some cases the dividends paid on shares, divided by share prices, are even outstripping the yield on bonds issued by the same company. This makes no sense. The share price has no theoretical ceiling, while the bonds pay a fixed amount.

A handful of academic works on the equity risk premium, published in the past year, far from gathering dust on university bookshelves, have become the stuff of hot debate in investment banks and company boardrooms, and among the trustees of pension funds and even university endowments. Why? Because

popular assumptions about long-term investment returns have been overturned. A year ago Robert Arnott, chairman of First Quadrant, an investment firm, and Peter Bernstein, an investment adviser, estimated that the equity risk premium should be as low as 2.4%. They argued that accidents of history, survivor bias, changes in corporate culture and many other factors had made equity returns look higher than they really were over the past 75 years. And they concluded that the outlook for equity and bond returns in the short term was about the same: between 2% and 4%.

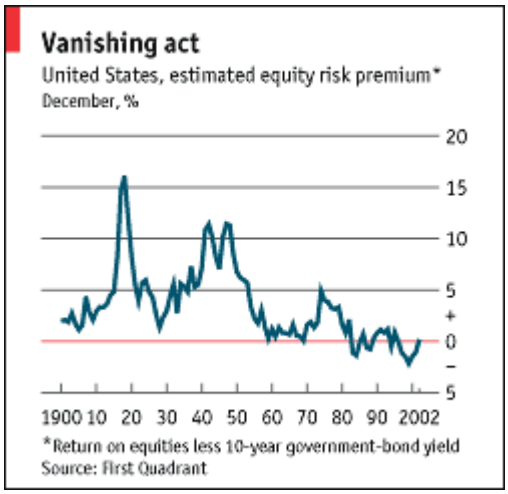
Sobering conclusions have also come from academics at the London Business School, whose analysis of equity returns since 1900 shows that, before the last bull run, only two decades, the 1950s and 1960s, had produced real rates of return of over 10%. The authors, Elroy Dimson and others, note that returns were low in 1900, but that investors became used to higher returns over the next century. Now, perhaps, shareholders will have to accept lower rewards once again.

Bill Gross, a fixed-income champion at Pimco, an American asset-management firm, predicted last September that bond returns will outstrip equities until share prices fall to their fair value, that is, until the Dow Jones Industrial Average is at 5,000 rather than today's 8,000-odd. However, those with an equity bias, such as Chris Johns, chief economist at ABN Amro Securities, continue to argue for at least a 60% equity weighting over the long term. “We're near to the wrong point of the cycle to go into bonds,” he says.

The debate is even causing ideological rifts within the same financial institution, says Mr Dimson of the London Business School. Corporate financiers are quoting one equity risk premium to companies creating incentive plans for their employees; fund managers pick another rate for asset allocation; those advising utilities use another to negotiate with governments on funding; universities worry about how much of their endowments they can spend each year. Then there are the aggregate—often wildly optimistic—returns forecast by equity analysts. “These are very hot issues,” says Mr Dimson, “since the equity risk premium drives decisions on asset allocation and company investments.”

Institutional investors know they cannot stay out of the market forever. Some dived into equities this week as stockmarkets rose. But they are also being tempted into so-called alternative investments. Hedge funds are attracting a growing proportion of institutional assets: they have been able to achieve above-average absolute returns in aggregate. But many investors will be disappointed, because fewer hedge funds are likely to outperform in future and the fees they charge are high.

Jerome Booth of Ashmore Investment Management sings the virtues of sovereign debt in emerging countries. Since a crisis in 1998, these markets have become less volatile, he says; the investor base has become more institutional and less speculative; and there is less risk of contagion between countries. Rating agencies have consistently underrated sovereign bonds because the risk is hard to quantify, says Mr Booth. He boasts over 25% average returns for his funds in the past decade.



But even he cautions investors against putting more than 5% of their assets into such bonds, at least to start. What about the rest? Many investors have sought higher yields in corporate-credit markets, from single-name corporate bonds, credit default swaps, or packages of securities backed by pools of corporate names.

The recent high levels of defaults and ratings downgrades have taken the shine off that market. There may, therefore, be little alternative to a cautious return to equities. Messrs Arnott and Bernstein recommend that investors accustom themselves to much lower returns than they have enjoyed in the past. “It's naive to expect earnings and dividends to grow faster than the economy,” says Mr Arnott.

That translates roughly into higher pension contributions, a longer working life and less rosy retirement all round. Or you can take a punt. Recently, Jonathan Compton of Bedlam Asset Management said he was buying his 18-year-old daughter shares in one company, BP: “One of the great opportunities this side of Mars,” he was quoted as saying. This week BP's shares dipped when a $3.4 billion shortfall appeared in its pension fund.

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Investment banking

$35m, and not a penny more

Mar 20th 2003 | NEW YORK
From The Economist print edition

Goldman Sachs restores partnership-style profit-sharing to a public company

ONE much-bemoaned change on Wall Street was Goldman Sachs's conversion, in 1999, from a partnership that channelled a vast proportion of the firm's profits to a small number of people to a public company with thousands of outside owners, all of whom have a claim on the loot. Many believe that this marked the closure of one of history's deepest gold mines.

These fears, apparently, are unfounded. In the midst of the investment bank's recently released proxy—a mandatory, annual statement of information for shareholders—are details of a new compensation plan for Goldman's 29 most senior employees. Each may snare a bonus of up to 1% of profits (before pesky expenses like, oh, taxes and the bonuses themselves). To avoid the appearance of excess, the bonuses will be limited to $35m per executive. The potential total of just over $1 billion is equivalent to one-third of Goldman's highest-ever net profit, recorded in 2000.

The justification for the compensation plan is “to perpetuate the sense of partnership” that has presumably been put at risk by the firm's flotation. Under the current compensation plan, apparently inadequate for this purpose, Goldman's chief executive, Henry Paulson, earned $10m last year. Four others made more than $7m. The proxy does not say how executives would have fared under the new system, but suggests that they would not have copped the full $35m.

In justifying Mr Paulson's pay for last year, Goldman's compensation committee called him a “strong voice for Goldman Sachs and the industry as a whole” and praised him for taking steps to restore trust in the integrity of corporate management. It is not an easy climate. Performance at every investment bank has suffered. Goldman, like others, has been forced to make many employees redundant. The firm has also had to pay millions of dollars to settle an investigation of analysts' conflicts of interest with New York's district attorney, and remains a target of other probes.

Last June Mr Paulson addressed the National Press Club in Washington, DC. “There have been a few well-publicised examples of CEO overcompensation,” he said. “When compensation is out of line with performance it really stands out.” His shareholders, who will have a chance to vote on the pay scheme, may want to ponder the new alignment.

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Allianz

Farewell, Fahrholz

Mar 20th 2003
From The Economist print edition

Germany's biggest insurer replaces the boss of its troubled banking subsidiary

EPA

Time to take a hammer to Dresdner

THE questions had been going around for weeks. How big a loss would Allianz, Germany's biggest insurance company and, through its extensive shareholdings, arguably its most powerful company, announce for 2002? Were things so bad that Allianz would be forced to raise fresh capital? And could Bernd Fahrholz, head of the insurer's subsidiary, Dresdner Bank, Germany's third-biggest bank and a drain on Allianz since being acquired in 2001, cling on to his job?

By March 20th, the answers were plain: huge; yes; and no. That morning, Allianz admitted to its first annual loss since 1945, of *euro*1.2 billion ($1.1 billion) after tax. Dresdner alone lost *euro*1.4 billion, mainly the product of *euro*2.2 billion of provisions against loans, both in Germany and abroad, that have turned bad.

In line with most analysts' expectations, Allianz will raise up to *euro*5 billion of new capital, *euro*3.5 billion of it from new shares and *euro*1.5 billion from subordinated debt. It will also reduce, from 22% to about 15%, its stake in Munich Re, a giant reinsurer that is Allianz's biggest shareholder (and its neighbour in Munich's Königinstrasse). Both companies' share prices opened sharply down on March 20th. Munich Re has had its troubles too.

Mr Fahrholz went on March 19th, the latest executive casualty of the insurer's purchase of the bank. Three months ago, Henning Schulte-Noelle, Allianz's chief, said that he would quit in April. His replacement, Michael Diekmann, head of Allianz's American operations, is thought to be less wedded to the Dresdner deal. Mr Fahrholz's job has gone to Herbert Walter, head of the retail-banking business of Deutsche Bank, Germany's largest bank. Allianz has had a good look at Mr Walter before: two years ago, the insurer tried to broker a merger between Deutsche and Dresdner, which would have left it with a slice of Deutsche's retail division.

Since Allianz bought Dresdner, the bank's Frankfurt headquarters, adorned with its green-triangle logo, has looked increasingly like an outpost of the Munich insurer's empire. Some say Mr Walter's appointment shows Allianz's intention to turn Dresdner into a specialist retail financial-services operation—not least, as a conduit for insurance policies—and to ditch the bank's corporates and markets division. This division, which houses Dresdner Kleinwort Wasserstein, an investment bank, as well as corporate banking, is the main culprit for its huge losses. “Mr Walter is a retail man, and corporates and markets is not working out,” says Marc Thiele of Commerzbank Securities.

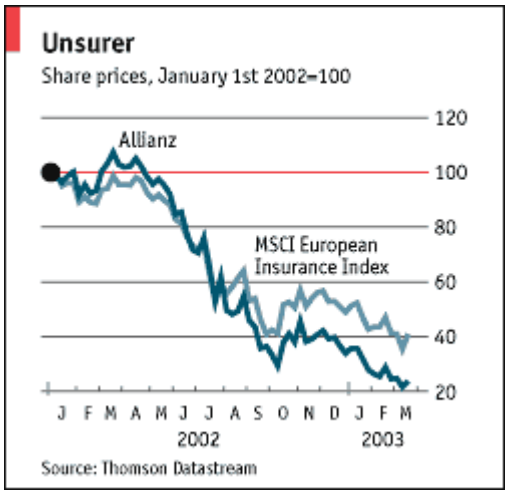
Arguably, some of Dresdner's woes are not of its own making. Germany has hundreds of small public-sector banks lending at hardly profitable rates, squeezing the margins of their private-sector peers. With the German economy in the doldrums, the country saw record levels of insolvencies last year. “Nobody could foresee that there would be such a crisis in German banking,” says Alessandro Profumo, the boss of UniCredito, an Italian bank.

Besides the trouble at Dresdner, Allianz continues to be plagued by the turmoil in stockmarkets. The insurance team at Morgan Stanley said in a report on March 17th that, of all the companies they cover, Allianz is the most geared to equities. Their counterparts at Merrill Lynch recently maintained their sell recommendation on similar grounds. Allianz's equity exposure as a percentage of gross assets is now

18%, down from 25% at the beginning of last year. Most big European insurers have cut their investment in equities by far more.

There are bright spots in Allianz's empire. Its property-and-casualty business is strong at a time of rising rates and increasing demand. Its combined ratio—the ratio of claims and expenses to premiums—fell last year by 3.1 percentage points. Allianz Leben, its life-insurance arm, control of which was a by-product of the Dresdner takeover, now has 18% of the German market. Allianz Leben's profitability is admittedly low. Its policies yield 5.3% a year, generous considering investment returns. Yet it has far more room to reduce payouts (the statutory minimum on the newest policies is 3.25%) than rival firms, especially the smaller fry.

Other Allianz subsidiaries are also in fair condition. RAS, Italy's second-largest life insurer, of which Allianz owns 55%, said on March 18th that it more than doubled its net profit last year, to *euro*911m. Pimco, one of Allianz's two asset managers in America, continues to thrive. On the other hand, Assurances Générales de France, a French insurer controlled by Allianz, revealed disappointing earnings figures on March 17th.



The big question mark, though, sits over Dresdner. Mr Fahrholz, an opponent of the break-up of his bank, fought hard to bring costs under control: his “turnaround 2003” scheme was supposed to bring the bank back into the black this year. He laid off 11,000 staff and cut expenses fiercely. Last year, the bank's administrative expenses were reduced by 12.3%. Bob Yates of Fox-Pitt, Kelton, an investment bank, for one, thinks that the worst is over for Dresdner and in two or three years the bank might actually make money. Mr Diekmann might not be that patient. The question now is, who would want to buy part—or all—of Dresdner Bank?

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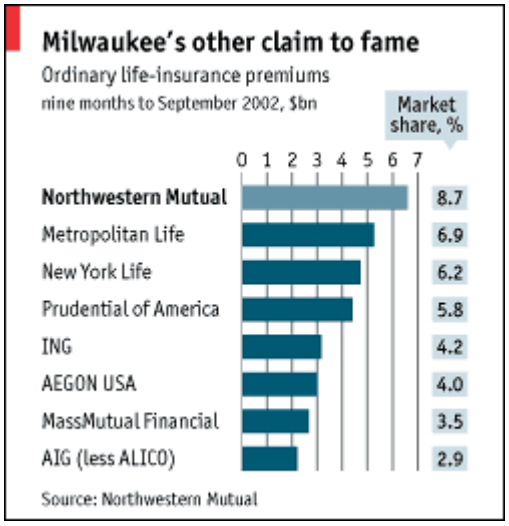
Northwestern Mutual

Signs of life

Mar 20th 2003 | MILWAUKEE
From The Economist print edition

At least one insurance company in the world is thriving

WHEN one big financial company after another is under investigation by regulators, suffering merger indigestion, lamed by bad investments, or all three, life in Milwaukee, at Northwestern Mutual, is going fine, as always. Indeed, the life insurer does so well with such regularity that its virtues draw notice only when everyone else is in convulsions.



Northwestern's policyholders have just received its annual report, its only required disclosure of financial results. It shows that, even at a difficult time, Northwestern managed to increase its surplus (insurance-speak for retained earnings) by 5%, to $7.2 billion. It will pay out policyholders a dividend of $3.7 billion, more by far than any other American insurer. Meltdowns elsewhere notwithstanding, Northwestern's diversified $90 billion investment portfolio rose in value by 1% last year. Any number of conservative investors, such as trustees of university endowments, would view this as brilliant.

Among America's 1,200 life-insurance companies, Northwestern is developing a commanding presence. In personal life policies, it is the leader, claiming a market share of 8.7% in the first nine months of 2002 (see chart), up from 8.3% in 2001, 7.7% in 2000, and so on. This reflects a steady increase in new customers, particularly among the wealthy. Richer customers tend to be steadfast. Fewer than 4% of Northwestern's clients abandon their policies. The industry average is more than twice as high.

One reason for Northwestern's success may be its reputation for honouring claims. In the aftermath of the World Trade Centre's collapse, it announced that it would pay out even before death certificates were issued. The company is also known for avoiding rotten products and for retroactively applying any decline in product prices to existing customers as well as to new ones. Most competitors would think this insane.

Northwestern is also loth to abandon employees. In 145 years, it has made no one redundant—not even last year, when many other insurers, banks, and asset-management companies were tossing people out of the door. Instead, it is on a hiring binge: 1,700 people will be added to its proprietary sales force of 7,800. The hope is that 400 or so will survive the hard, early years of pitching insurance, and then, as usually happens, stay for life.

In the past three years, most large American insurance companies have demutualised, among them Metropolitan Life, Prudential and John Hancock. Some may be better managed as a result, yet none has seen much appreciation in its share price. Consequently, all are under increasing pressure. Northwestern changed its corporate structure in 1999, but recoiled from going public. Given the market turmoil since, it has little cause for regret.

Unlike many big insurers, especially in Europe, Northwestern Mutual has resisted acquisitions. It has bought only Russell, a pension advisory firm, and avoided other insurers, which often come with buried problems. “If growth is not organic,” says Edward Zore, the company's chief executive, “it is not permanent.” Many finance-industry bosses might agree—and wish they had thought it sooner.

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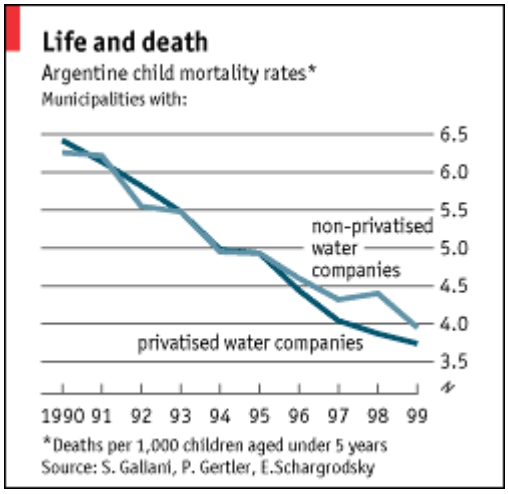
Water privatisation

Raise a glass

Mar 20th 2003
From The Economist print edition

How to improve child health



FEW issues have generated more heat at this week's third world water forum in Kyoto than the privatisation of water supplies. Only dam-building arouses more hostility among non-governmental organisations (NGOs). Water, in their view, is too precious and too important to be put into private hands. Private companies, runs the argument, will care about profits, not about the impact of water on human health and disease.

A new study* by three economists, two based in Argentina and one at the Haas School in Berkeley, California, suggests that the NGOs are wrong. Examining Argentina's privatisation campaign in the 1990s, one of the world's biggest and one of the few to involve extensive privatisation of local water services, they find that privatisation may actually bring benefits for the health of young children, the group most vulnerable to disease.

The study takes advantage of the fact that water services in Argentina are the responsibility of local governments, and that only 30% or so of municipalities chose to privatise them between 1991 and 1999. That creates a control group for comparing child mortality.

Water privatisation in Argentina certainly brought increases in productivity and profitability. The largest privatisation involved the transfer to Aguas Argentinas, a consortium led by Lyonnaise des Eaux, a French company, of OSN, a federally owned entity in Buenos Aires. At the end of the first year, prices for both water use and connection were lower than they had been at the start. Non-payment of bills had been high; by cutting customers off after three unpaid bills, the company got 90% of people to pay. The number of employees, whose average age was over 50, was cut by almost half. In its second year, Aguas Argentinas was highly profitable.

In the decade before privatisation, OSN had invested too little to replace depreciating assets. In the late 1980s, the proportion of the population receiving water had been falling and summer shortages frequent. From $25m a year in the decade before privatisation, the company's investment rose to about $200m a year in 1993-2000. Connections to the water and sewerage networks rose, especially among poorer households: most richer households and families in the city centre were already hooked up. Besides, the government set targets for connecting the poor, who have also been largely protected from subsequent disconnections.

Other water privatisations in the country seem to have achieved broadly similar results. Among municipalities in Argentina that privatised in 1990-96, the number of households connected to the network rose by 4.2 percentage points more than in districts that remained in public hands.

Before privatisation really got under way, in 1995, child mortality rates were falling at much the same pace in municipalities that eventually privatised and those that did not. After 1995, the fall accelerated in privatising municipalities (see chart). The fall was concentrated in deaths from infectious and parasitic diseases, the sort most likely to be affected by water quality and availability. Deaths from other causes did not decline.

These effects were much stronger in municipalities with high levels of poverty than in those that were better off. Overall, childhood mortality fell by 8% in areas where water services were privatised, and by

24% in the poorest areas. The NGOs in Kyoto campaigning against privatisation are therefore likely to be condemning more children, not fewer, to death from waterborne diseases.

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* "Water for Life: The Impact of the Privatisation of Water Services on Child Mortality". By Sebastian Galiani, Paul Gertler and Ernesto Schargrodsky.

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Hedge funds in Japan

Growth industry

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From The Economist print edition

Despite official frowns, Japanese hedge funds are on the rise

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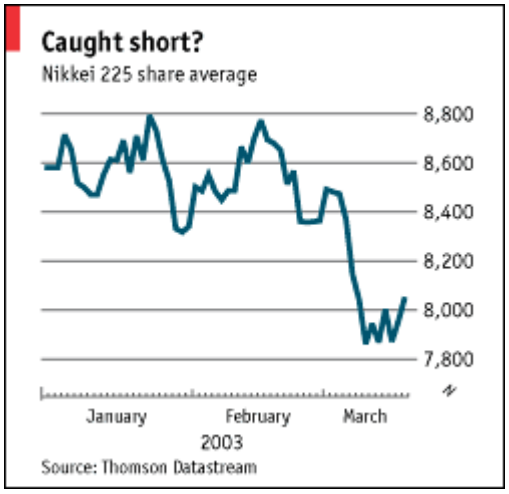

JAPANESE officialdom views hedge funds with deep suspicion. Some politicians and civil servants think all hedge funds are evil short-sellers, selling borrowed shares in the hope of buying them back at a lower price. They blame hedge funds for the latest tumble in Tokyo's stockmarket, which this month has touched 20-year lows (see chart). Yet despite official enmity, hedge funds focusing on Japanese equities have been growing in both size and number. There were about 50 at the start of last year. Now there are more than 70.

It is difficult to nail down the exact size of hedge funds' positions. Still, Mark Mason, of the Columbia Business School's Centre on Japanese Economy and Business, estimates that hedge funds' assets invested in Japan grew by more than 40% in 2001, to nearly $10 billion. He believes that Japan-focused hedge funds have around $12 billion-15 billion under management, with global macro funds allocating a further $8 billion-15 billion to Japan.

One catalyst of growth was the break-up of big macro funds about three years ago. This produced a crop of experienced managers who set up their own funds. Some of these saw opportunities in Japan, which had relatively few hedge funds. Their emphasis has been mainly on micro investing strategies: focusing on the prospects of individual companies and looking for gains from corporate restructuring and mergers.

Many hedge funds pursue “long-short” equity strategies—investing in stocks they like and shorting those they do not. Institutional investors, especially the country's troubled life insurers, who are keen to make a few yen by lending shares to short-sellers, are aiding them in this. “A lot of stock is available for shorting,” says one hedge-fund manager. “The more distressed institutions are, the more likely they are to want to supplement their income.” Yet contrary to official prejudice, say industry observers, most hedge funds buy more stocks than they sell short. The biggest sellers of shares are not hedge funds but local institutional investors looking to cut their losses.

Most hedge-fund investors are foreign. The attraction is that in the past couple of years Japan-focused hedge funds have outperformed, if only by a little, funds centred on American or European equities. Average annual returns in 2001 and 2002, estimates Stephen Jupp of Tremont Advisers, a New York investment and advisory firm, were around 4.4%.

However, Japanese institutional investors are also starting to shift money into hedge funds. Japan's huge corporate pension funds are set to make negative returns for the third year running. They have lost money on domestic and foreign equities. Although their large holdings of Japanese government bonds (JGBs) have been profitable, returns are likely to be thin—ten-year bonds yield less than 1%—and may even turn into losses. Erol Emed of SG Yamaichi Asset Management says that pension funds are looking for alternative investments with a similar risk profile to JGBs. Hence the attraction of hedge funds promising low volatility. Were corporate pension funds to switch even a small proportion of their portfolios, the hedge-fund industry would receive a handsome inflow.

Yet fund managers have worries too. One is that liquidity in Japan's stockmarkets is falling—although this may concern them less than bigger, less nimble investors. Another is regulatory risk. It is not so much

that short-selling rules were tightened last year: that merely brought Japanese regulations into line with America's. It is more that new rules are often introduced suddenly, leaving investors little time to modify their systems and strategies. This forces investors to cover short positions at unfavourable times. Such practices could turn hedge funds away from Japan. And that would be a pity—whether the funds are shorting zombie companies or buying brighter-looking prospects.

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Burmese banks

Kyatastrophe

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A bank run in Myanmar

WHEN the governor of Myanmar's central bank said there was nothing to worry about, people suspected that something was seriously amiss. Then, a few days later, General Khin Nyunt, the third-ranking member of the country's military junta, declared: “The people are forewarned that if the banks are affected due to the rumours maliciously spread by destructive elements, the country will also have to bear the consequences.” Having deciphered his syntax, depositors rushed to withdraw their money from Myanmar's 20 private banks. The banks, unable to pay them all, limited withdrawals to 1m kyat (officially, $160,000; unofficially, about $1,000) per account per week. More than a month later, the restriction remains and the government is as ham-fisted as ever.

The government has told bankers not to speak to journalists or place advertisements, so no one has much idea of what is going on. Probably, the bank run was sparked by the collapse of several shady investment schemes in early February. But the root cause is the government's 10% cap on interest on deposits. With inflation at 50%, no wonder many Burmese put money into shaky schemes, or indeed anything promising more than the banks.

On paper, Myanmar's private banks (there are a few state-owned ones too) looked solid before the crisis. They held roughly 500 billion kyat in deposits. Their reserve requirement was a steep 20% of that. What's more, they could lend only against collateral, and then only up to 40% of its value, conservatively estimated.

It seemed, then, that the central bank's initial reaction—lending perhaps 30 billion kyat to the banks—was safe enough. Suddenly, it changed its tune, ordering the banks to bring in their own cash by recovering 10% of their loans by March 1st and another 30% by the end of April. Meanwhile, the Burmese are having a hard time getting any money. The sheer shortage of kyat has driven the black-market exchange rate from roughly 1,100 to the dollar to 900 since the crisis began.

Bosses cannot pay their employees, nor tradesmen their suppliers. One foreign businessman complains that his turnover has fallen by 20%. Construction has stopped on several building sites, locals say, for want of cash to pay the labourers. As the banks call in loans, the slump can only deepen.

Why is the central bank now sitting on its hands? One rumour has it that it ran out of paper and ink with which to print money, and so had to stop bailing out the banks. Another theory contends that the junta wants to put the ethnic Chinese businessmen who run most of the banks in their place. Or maybe it knows that the banks were not, in fact, run as tightly as the rules required. One thing is certain: generals make poor bank regulators.

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Economics focus

Risk management for the masses

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We have the financial technology, says Robert Shiller, to cope with growing economic risks

LATELY, a lot of attention has been focused on the stockmarket bust after the 1990s boom and on the short-term state of the economy, now teetering in and out of recession. Look ahead, though, and there is every reason to think that there are bigger, equally unpredictable economic risks on the way. Perhaps the biggest such issue in the next ten years will be the quick pace of change in the economic status of individuals. Advances in technology, in particular, have increased the chances both of striking it lucky, and becoming very wealthy—but also of being unlucky, and becoming very poor. The likely outcome is both greater economic uncertainty and greater inequality. But there is good news too: the financial tools that will allow ordinary folk to cope with increased uncertainty, and to insure against adverse economic events, are already being developed.

Inequality has been on the rise in virtually all rich countries in recent decades. This increase appears to be due, in large part, to changing technology, such as rapidly advancing communications, information and control technology, and its effects on an interdependent world economy. It is true that, by some measures, world income inequality has been decreasing—notably because China and India have been catching up. But there are reasons to expect a longer-run tendency towards much greater inequality.

Advanced technology often means that a smaller number of skilled people supply their services over a wider area, producing a “winner-take-all” effect, where only the best do well, and these lucky few command enormous incomes. The invention of the phonograph did this for singers, and the invention of the motion picture did it for actors. Proliferating communications and information technology may do the same for many other occupations in the future.

So far, a good deal of public resentment about increasing inequality has centred on the most visible highly paid people. Recently, public policy has focused on preventing a few unscrupulous top executives from unfairly enriching themselves at investors' expense. However, we are likely to discover that this, while helpful, does relatively little to mitigate the forces that make or break fortunes, which are much bigger than any fraud or malfeasance that we see today. Why? Because new technology produces far more pervasive and important changes in fortunes than those caused by dishonest boards or accounting shenanigans. Such changes stem from the very stuff of capitalism, undramatic events that unfold over many years: word processors replacing secretaries, industrial robots replacing assembly-line workers, and online-learning sites replacing professors.

Although new technology can mean that jobs are replaced by machines, it has often created as much employment as it destroyed, albeit of a different type. When Cyrus McCormick's automatic harvester replaced field hands in the mid-19th century, the invention promoted greater prosperity and helped to create a variety of other jobs, like turning grains into fancy breakfast cereals and packaged baked goods.

Now, though, with the pace of technological progress increasing, there is a high degree of uncertainty whether lost jobs will ever be replaced with others that are as remunerative. We have moved from the field to the factory to the service sector, but as technology relentlessly advances, it isn't clear where we will be heading next. A possible dearth of good career alternatives for many people could generate great inequality in coming decades.

Yet, paradoxically, the same technology that is creating this inequality could also reduce it. It got us into the problem and it can get us out. This technology needs to be coupled with the science of risk management, which combines elements of finance and insurance to help deal with the possibility of adverse events, in much the same way as bankers and financiers minimise the risks of doing business by

using fancy financial arrangements such as currency hedging and interest-rate swaps.

From Wall Street to Main Street

Most of us do not think of inequality as a risk-management problem akin to those that financiers or insurers deal with. However, if our purpose is to reduce gratuitous inequality—ie, inequality that cannot be justified in terms of individual talent or effort—then we should reduce the random economic shocks that affect our lives, such as random shifts in the market for our labour. The most basic principle of finance and insurance is that spreading risks over large numbers of people can reduce their impact. The challenge today is to discover how to make this principle work for the greatest economic risks that most people face.

By coupling risk management with technology, society can much more thoroughly reduce the negative impact of future risks. This will require some innovation, but we can achieve this, and we are already trying.

Today, investment banks use sophisticated financial instruments to help business clients hedge against changes in such things as the value of currencies or in commodity prices. For example, a company that uses oil as an input in production can buy an option to purchase it at a predetermined price and thus eliminate the risk that oil will get too expensive. An American firm that has a cash inflow denominated in euros can, with the help of an investment bank, sign a swap contract that exchanges this euro income for dollars at a predetermined exchange rate, thereby eliminating currency risk. Similarly, venture-capital firms help young start-up companies by setting up a compensation structure that shields employees from some of the greatest risks of the business and yet offers them enough potential rewards to stimulate them to work hard. The employees are able to pursue a very risky business without worrying that failure will put their families on the streets.

Investment banks and venture-capital firms are willing to help clients mitigate these risks because they have a great deal of information on which to base their decisions. Exchange rates and oil prices are well-understood and well-measured risks, for which there are large and deep markets with prices that can be observed on a second-by-second basis. When dealing with large companies, it is well worth the investment banks' efforts to understand their clients' problems and educate managers in risk-management principles. Venture-capital firms are able to reduce risks for start-up businesses because they have control over the terms of the deal, carefully laid out by lawyers, and with accurate accounting of the goings-on in the company.

In the future these same general risk-management techniques could be applied to every individual worker, as information becomes more available, as automation reduces the costs of tailoring risk-management contracts to individual needs, and as new technology is developed to deliver such services widely.

The same information technology that helps big businesses manage risks is providing greater detailed information about individual economic risks, allowing us to form thousands and thousands of indices of incomes and prices. We are developing huge databases of information about individual incomes, and their correlation with other economic variables. These databases are increasingly accurate and up-to-date, so that they can provide the bases for settlement of risk-management contracts.

For most individuals, the biggest risks are not euro-dollar exchange rates or oil prices. Instead, they are their pay packets or the price of their homes. It is reasonable to suppose that, in coming years, our personal financial-services software, with the assistance of professional organisations or trade unions and pension funds, will allow people to make essential contracts to reduce income risk. Individuals may be able to create financial swaps of average incomes in their region (as measured by a regional income index), thereby reducing risk. It will also be possible to create home-equity insurance contracts that protect them against a decline in the market value of their homes.

We will also be able to expand the complexity and coverage of existing insurance, notably disability insurance. Right now, disability insurance covers specific medical problems. It could be expanded to cover a much wider range of risks to an individual's career. Employees could get insurance against losing their jobs to an emerging technology or cheap overseas workers. Currently, insurance companies do not cover such risks, primarily because the risks are not objectively verifiable or measurable. But, as our database technology and our ability to track individuals through time grow, the scope of insurance should widen dramatically.

It will also be possible to create for individuals contracts that provide incentives for them to advance their own individual careers. These would be analogous to the kind of contracts that venture-capital firms draw up for the management of young companies. An individual may then go forth and develop a highly risky personal career, acquiring specialised skills that also have a small probability of being extremely important but carry as well a risk of becoming useless. Such individual contracts could be a breathtakingly important stimulus for our economy, if they free people from career risks and allow them to be more adventurous in all aspects of their careers. We may then expect to see an explosion of individual creativity and diversity.

The same information technology will allow us to produce large international markets for a complex array of aggregated risks that today are not traded at all. In the not-too-distant future, we can have what will in effect be online auctions for occupational-income indices, for gross domestic product and for swaps between the GDPs of different nations. These international markets can be used by insurers and other retailers of individual risk-management services to lay off the risks that they incur by helping individuals with their risks.

Emerging trends

When will we have the ability to insure ourselves—our jobs, our homes, our lives? Today there are a few early indicators of innovative risk-management techniques, some of which could grow to have a large impact.

In October 2002, Goldman Sachs and Deutsche Bank created a new electronic market (www.gs.com/econderivs/) for economic indices that represent substantial economic risks, such as nonfarm payroll (a measure of job availability) and retail sales. This new market was made possible by a sophisticated trading technology, developed by Longitude, a New York company providing software for financial markets, called the Parimutuel Digital Call Auction. This is “digital” in the sense of a digital option: ie, it pays out only if an underlying index lies in a narrow, discrete range. In effect, Longitude has created a horse race, where each “horse” wins if and only if the specified index falls in a specified range. By creating horses for every possible range of the index, and allowing people to bet on any number of runners, the company has produced a liquid integrated electronic market for a wide array of options on economic indices.

Ten years ago it was virtually impossible to make use of electronic information about home values. Now, mortgage lenders have online automated valuation models that allow them to estimate values and to assess the risk in their portfolios. This has led to a proliferation of types of home loan, some of which have improved risk-management characteristics.

We are also beginning to see new kinds of insurance for homes, which will make it possible to protect the value of what, for most people, is the single most important component of their wealth. The Yale University-Neighbourhood Reinvestment Corporation programme, launched last year in the city of Syracuse, in New York state, may be a model for home-equity insurance policies that rely on sophisticated economic indices of house prices to define the terms of the policy. Electronic futures markets that are based on econometric indices of house prices by city, already begun by City Index and IG Index in Britain and now being developed in the United States, will enable home-equity insurers to hedge the risks that they acquire by writing these policies.

These examples are not impressive successes yet. But they stand as early precursors of a technology that should one day help us to deal with the massive risks of inequality that otherwise will beset us in coming years.

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Robert Shiller is professor of economics at the International Centre for Finance, Yale University, and the author of “Irrational Exuberance” (Princeton University Press, 2000). His new book, “The New Financial Order: Risk in the 21st Century” (to be published by Princeton University Press on April 2nd; $29.95 and £19.95), on which this article is based, lays out a vision for the future of finance, insurance and social welfare.

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Refrigeration

Some cool ideas

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Traditional refrigeration may be eased out by new technologies

THE basic technology of refrigeration has not changed much since the 19th century. Refrigerators (and their cousins, air conditioners) work by compressing a fluid and then allowing it to expand. Compression heats the fluid up, thus heating its surroundings. Expanding it cools it down, thus cooling its surroundings. Arrange for the compression to happen in one place and the expansion in another, and heat will be pumped from the latter to the former. Pick the right fluid and you can move a lot of heat.

Early refrigerators used ammonia, which is poisonous. Then chlorofluorocarbons (CFCs) were discovered. They are not poisonous, and quickly displaced ammonia. But CFCs were implicated in the destruction of the ozone layer that protects the Earth from ultraviolet light, and were banned. So ammonia came back into fashion. Now, technologists are working on several completely different ways of cooling things.

Pumped up

The least different way is called closed-cycle air refrigeration. Instead of employing special fluids such as CFCs or ammonia, it uses air itself as the working fluid.

Open-cycle air refrigeration, in which air is compressed, allowed to shed the heat this generates, and then blown into the space to be cooled, is already used in some sorts of air conditioning—for example, on aircraft. It is safe, since the pressures involved are low, but it is inefficient, because the cooled air is lost to the system.

A closed cycle (ie, a sealed system similar to a traditional refrigerator) can be more efficient than an open one, but that efficiency requires the air to be pressurised to a much higher level. Indeed, the reason why CFCs and ammonia were used in the first place is that they are more compressible than air, and thus deliver more refrigeration for a given pressure. The trick, therefore, is to generate and contain the extra pressure safely.

A collaboration between America's National Institute of Standards (NIST) and several American refrigeration companies has overcome these problems. To generate the 82 atmospheres of pressure needed requires a pump shaft that can rotate 30,000 times a minute, and can do so at temperatures between -50°C and -100°C. That, in turn, required the development of new seals between the shaft and

its housing. These have specially designed spiral grooves that eliminate the need for lubricants, since those can fail at such high pressures and low temperatures.

Besides getting rid of expensive and potentially dangerous coolants, closed-cycle refrigeration chills things faster than conventional refrigeration. That should improve food safety, as packaged frozen foods will spend less time in the temperature range conducive to bacterial growth. Foods frozen using this technique should taste better, too, as faster cooling means less dehydration. All told, NIST says, these benefits should be worth hundreds of millions of dollars a year, even if only a handful of large industrial refrigeration plants switch over.

Sounds good

Closed-cycle air refrigeration still uses the compression and decompression of a circulating fluid. Another new technique abandons even that. Sound is normally thought of as a pressure wave. But, like any other pressure change, it also brings a change in temperature. In an ordinary conversation, that temperature change is a mere ten-thousandth of a degree. But a loud sound in a pressurised gas can cause significant temperature changes. Such sounds can be made without any moving parts by the use of a resonating cavity. The lack of moving parts means that devices depending on “thermo-acoustic” effects can be made to be much more efficient than conventional refrigerators.

A collaboration between America's Los Alamos National Laboratory and Praxair, an industrial-gas company based in Connecticut, is in the process of commercialising this idea. Praxair is interested in using it to liquefy natural gas.

The trick in building thermo-acoustic refrigerators lies in synchronising the pulses of sound in such a way that little packets of cold fluid are pushed one way, while little packets of heated fluid move in the opposite direction. In this case, pressurised helium is used to conduct heat away from the natural gas. The helium is pushed through a thin mesh of steel wires to break it up into packets. By adjusting the size of the resonating cavity, and of the mesh, the sound waves can be made to cool the helium, which in turn cools the natural gas.

An attractive alternative

A third new refrigeration technology may see use not just in industrial plants, but also in the air-conditioning systems of cars, and perhaps even in household refrigerators. It has been known for a long time that certain substances heat up when placed in a magnetic field, and cool down when the field is removed. Unfortunately, this effect is large enough to be useful only in a handful of rather exotic materials, most notably alloys of gadolinium. And the magnetic fields involved need to be very powerful.

Until 2001, superconducting magnets had to be used to produce strong enough magnetic fields. However, in that year Karl Gschneidner, a researcher at Ames, a Department of Energy research lab in Iowa, succeeded in making a magnetic refrigerator using strong permanent magnets. This magnetic refrigerator work by using a rotating wheel containing gadolinium alloy. The rotation takes the alloy in and out of the magnetic field, alternately heating and cooling it. Water cooled by the cold alloy is then circulated through coils like those found in a regular refrigerator. A cool idea indeed.

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Medicine

The shock of the new

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A previously unknown strain of pneumonia has struck

AS IF the threats of war and international terrorism were not enough, a new disease is causing the nervous to think twice about travelling abroad. More than 250 people have been taken ill with a previously unknown form of pneumonia, which has been dubbed Severe Acute Respiratory Syndrome (SARS). Cases have been confirmed, or are suspected, in at least ten countries, and the World Health Organisation (WHO), which has given a warning that the syndrome is a “worldwide health threat”, has recorded nine deaths since February 1st.

Pneumonia is the medical term for an inflammation of the lungs. Such an inflammation may be caused by bacteria, viruses or fungi. SARS is an “atypical” pneumonia because the lungs swell and compress against the chest, making it difficult to breathe (in ordinary pneumonia the lungs fill up with mucus).

A number of pathogens are known to cause atypical pneumonias, but the organism behind SARS has been elusive. Now, though, doctors from the Chinese University of Hong Kong, and the Prince of Wales Hospital in that territory, believe that a virus may be responsible. They have identified a virus from the paramyxoviridae family in three patients. This is a group of viruses that is responsible for mumps and measles in people, as well as Newcastle disease, an infection of chickens, and rinderpest, a cattle disease.

However, Dick Thompson, a spokesman for the WHO, cautioned against leaping to conclusions about the cause of the outbreak. “This is a common family of viruses, and it is typically found at this time of winter,” he said. He added that, at this stage, it would be a “huge leap” to say that a paramyxovirus was responsible.

Many suspect that the current outbreak, which was first noted by the WHO in Vietnam, actually began in southern China in the province of Guangdong. An outbreak of atypical pneumonia in November last year struck 305 people, killing five. But no firm link between the outbreaks has yet been made.

The Guangdong outbreak was reported by the Chinese government to the WHO only in mid February. And only this week, on March 18th, did the government acknowledge that it had a continuing outbreak of atypical pneumonia. Southern China is a notorious crucible of infection. And getting at the truth in China is not simplified by the government's erratic reporting and acknowledgment of diseases on its territory. For example it denies, despite strong circumstantial evidence to the contrary, that China was the source of a big outbreak of avian influenza that happened in Hong Kong in 1997, when the territory was British.

At the moment, there are no indications that SARS is due to some form of terrorism. Julie Gerberding, director of the Centres for Disease Control and Prevention (CDC) in Atlanta, Georgia, says that the pattern of transmission is typical of a contagious respiratory illness. But she also says that the CDC is “keeping an open mind”.

Although panicky comparisons with the great 'flu pandemic of 1918 have been made, the agent that causes SARS does not appear to be as virulent as the virus that caused that disaster. A WHO spokesman said that, if the SARS pathogen spread easily, thousands of new cases would have been expected in new countries by now. So far, new cases of SARS have been limited to those who have had close contact with existing cases, such as hospital workers and members of patients' families. No new cases caused by casual or indirect contact have yet been identified. So maybe it is safe to travel after all.

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Pest control

Exterminate, exterminate

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Genetically engineered extinction

MANKIND has exterminated many species carelessly, but only one deliberately. Smallpox viruses were eliminated in the wild in the 1970s, though they remain in two known (and probably several unknown) laboratories around the world. In general, the sorts of species that people want to get rid of—pests, parasites and pathogens—resist extermination. But Austin Burt, a geneticist at Imperial College, London, may have found a way to deal with them. In a paper just published in the *Proceedings of the Royal Society*, he describes how to spread genes that will lead to the extinction of almost any sexually reproducing species.

Genes, as Richard Dawkins observed, are selfish. But some are more selfish than others. So-called site-specific selfish genes (SSSGs) are particularly solipsistic. Not content with reproducing along with the cells containing them, they also transfer themselves from one chromosome to another within a cell. That means they can rapidly become ubiquitous.

They perform this trick by exploiting their hosts' cellular machinery to insert themselves into the DNA of new chromosomes. Normally, this does no damage. Most DNA does not actually carry genetic information, and if an SSSG lands in such a piece of junk it will do little harm. Dr Burt's suggestion is to alter the site an SSSG prefers, so that it inserts itself into the middle of something that does matter, such as a gene. Thus disrupted, the target gene would no longer work.

The SSSGs that Dr Burt has his eye on are a group called homing endonuclease genes (HEGs). When one of these gets into a chromosome, it causes the production of an enzyme called endonuclease. This acts as a pair of molecular scissors, cutting DNA molecules at any place that has a specific sequence of the nucleotide “letters” of which DNA is composed.

Cells have two copies of most chromosomes (one deriving from the mother, and one from the father). If only one of these carries an HEG, the other will be cut by the enzyme which that gene produces. The site of the cut corresponds to the site of the HEG on the “infected” chromosome. The infected chromosome itself is not cut, because the HEG is in the middle of the enzyme-recognised sequence, and thus disguises it. But, since cells repair chromosomal damage by replacing the corrupted DNA with a copy from the same place on the partner chromosome, the HEG is copied over as part of the repair process.

Now, instead of one copy of the broken gene, the cell has two. And if this happens while eggs or sperm are being produced, then all the eggs or sperm will have the HEG-disrupted gene, even though the parent had only one copy. And so it comes to pass, in computer simulations at least, that HEG-disrupted genes propagate madly through any population into which they are introduced.

To cause extinction, the secret is to pick a target gene that results in few problems if only one copy per cell is disrupted, but causes death if both copies are disrupted. In this case, the disrupted version spreads, according to the models, until it is so common that 80% of embryos die before they mature. Use several HEGs, with different genetic targets, and that percentage can be forced well above 95%. At this point, too few offspring are produced to replace the parents, so the species gradually dwindles to extinction.

The question is how to get an HEG to change its mind about which piece of DNA its enzyme should cut, so that it ends up in the middle of a gene. That will not be easy, but modern “molecular breeding” techniques, with which genetic engineers shuffle genetic material and then select from the results for particular features, as an animal breeder selects for, say, coat colour, may do the trick. After that, it will be a question of deciding which species to try to get rid of, designing suitable HEGs, putting them into a

few individuals and releasing those individuals into the wild. Disease-carrying mosquitoes are likely to be high on the list. But if your neighbour is a genetic engineer, perhaps you shouldn't let the dog bark too loudly late at night.

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Psychology

Who shot the president?

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A possible explanation for conspiracy theories

ACCORDING to many otherwise rational people, the moon landings were faked. They point to signs of a flag fluttering in the wind in one of the photographs. It has even been suggested that the space shuttle *Columbia* was deliberately destroyed to prevent the launch of a probe that would prove that people never landed there. But why bother visiting the moon when there are already aliens living on Earth? The website of a group called Adult Children of Alien Abductees—the internet's "leading exoterran-DNA support group"—estimates that the exoterran community is "nearly 4% of Earth's life forms".

Meanwhile, back on planet Earth, Patrick Leman of Royal Holloway, a college of the University of London, has presented the results of his research into conspiracy theories to the annual meeting of the British Psychological Society, which was held last week in Bournemouth. He thinks the reason people believe in conspiracy theories is that humans have an innate tendency to try to link major events with major causes.

To test this idea Dr Leman presented 64 students with clippings of articles that looked as though they had been taken from a newspaper. In fact, the articles had been made up. They were about the president of a fictional country, and they came in four versions, of which each student saw but one. In the first version, the president was shot and killed. In the second, he was shot but survived. In the third, the shot missed, but he died shortly afterwards from an unrelated cause. In the fourth, the shot missed and he lived. The students were asked to rate the likely truth of six statements on the subject of whether the assassin was a gunman acting alone, or whether there was a conspiracy at work. They were also asked to rate the accuracy of the "facts" in the article.

Some of the results were unsurprising. For example, subjects with high general levels of belief in conspiracy theories were much more doubting of the facts in the articles. That fits with what is already known—that people who like conspiracy theories tend to bat away any evidence that contradicts their point of view.

More surprisingly, Dr Leman found that if the fictional president "died" after the shooting, readers were much more likely to believe that the gunman was part of a conspiracy. This was true even though the other facts in the story were unchanged, and even if the death was due to an unrelated cause, such as a heart attack. This curious observation is the basis of Dr Leman's hypothesis that there is some underlying process in human psychology that assumes that the bigger the effect is, the bigger the cause must have been.

Which leaves the question of who really did shoot the president? Zoran Djindjic of Serbia (actually that country's prime minister, not its president) was gunned down in Belgrade on March 12th. The Serbian government says it believes the assassination was arranged by a criminal group of underworld gangsters linked to allies of the former president, Slobodan Milosevic. That sounds pretty conspiratorial. But really keen conspiracy theorists are advised to consider the possibility that it was, in fact, all down to a gunman on a grassy knoll.

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About sponsorship

The American military

Send in the soldiers

Mar 20th 2003
From The Economist print edition

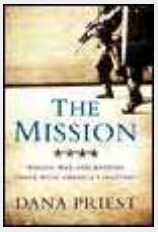
Getty images

America's military forces around the world are run by five men. A new book looks at their power and influence—and claims it is excessive

LIKE the British empire a century ago, the sun never sets on American soldiers. In Iraq their task will mainly be traditional combat, but their real mission is far broader. From the glamorous to the mundane, American forces are engaged in de-mining, fighting terrorism and drug-trafficking, humanitarian disaster relief and disarmament, notes Dana Priest, a *Washington Post* specialist on the Pentagon, in a timely new book.

America's special forces have acquired a special cachet, especially since the incursion into Afghanistan where soldiers rode horses and allowed their beards to grow unmilitarily long. Now operating openly or otherwise in more than 100 countries, they have become the tool of default when American policymakers abandon more difficult alternatives, Ms Priest says. In Colombia, they are fighting the war on drugs; in Kirgizstan they run counterterrorism training programmes; in the Philippines last year they began helping the army fight Abu Sayyaf, a terrorist group known for kidnapping, extortion and beheadings.

The Mission: Waging War and Keeping Peace with America's Military
By Dana Priest



Norton; 384 pages; $26.95

Buy it at
Amazon.com
Amazon.co.uk

The expansion of this military mission has come about without public scrutiny or debate. After the cold war many believed that American defence spending would go down—and stay down. The Defence Department's $380-billion budget proposal for 2004 would take expenditure back up to levels not seen since the fall of the Berlin wall. During the 1990s, the State Department budget was pared down and congressional parsimony forced the closure of consulates, cultural centres and libraries—the very places young Arabs and Africans, Asians and Hispanics went to learn about America. “In a decade when Congress significantly slashed money for diplomacy, the CinCs' headquarters had grown to more than twice their cold war size,” Ms Priest reports.

CinCs? Few Americans will know them by name, but the five men who rule the regional commands of the armed forces are now among the world's most powerful men. The Iraq war is being run by General Tommy Franks, CinC of the Central Command, which includes the Middle East and Central Asia. General Franks's predecessor was Anthony Zinni, a blunt, irreverent marine, who openly ridiculed the notion of giving money and arms to the Iraqi opposition whom he called “silk-suited, Rolex-wearing guys in London.” Despite this approach, General Zinni was widely regarded as a political diplomat, who wielded

considerable power and was not afraid to show it. At a conference in Bahrain, several American ambassadors “wandered the hotel lobby, alone and unnoticed, and slept in regular-sized rooms,” Ms Priest writes. General Zinni, meanwhile, had a suite, and his staff occupied an entire wing of the hotel, quickly running up a bill of $450,000.

The general's high profile on that occasion is a small, but trenchant, example of a shift in the making of American foreign policy—from suits to uniforms—that has been as fundamental as it has been largely unnoticed. Ms Priest, who travelled to 19 countries to observe the American military in operation, cites many more.

In Indonesia in 2000, military interests came into direct conflict with the ambassador, Robert Gelbard, when Admiral Dennis Blair, then head of the Pacific Command, took a strategic decision to re-establish military aid programmes that had been cut back by the Clinton administration in response to Indonesia's human-rights abuses. One time-honoured ambassadorial prerogative is to control which officials visit from other agencies. The ambassador, an outspoken critic of Indonesian atrocities in East Timor, feared a Blair visit would undermine the Clinton policy. Admiral Blair's command covered 60% of the world's population. With a permanent liaison office in Washington, colonels working for him at the Pentagon and a staff of up to 1,000 at his Hawaii headquarters, Admiral Blair simply swamped Mr Gelbard, who Ms Priest notes had a small, overworked staff, and was backed by an ineffective State Department bureaucracy. The visit went ahead.

Ms Priest worries about the long-term effects of allowing foreign policy to be so dominated by military interests. “At a minimum, Americans should understand the consequences of substituting generals and Green Berets for diplomats, and 19-year-old paratroopers for police and aid workers on nation-building missions,” she says. Something to think about later.

The Mission: Waging War and Keeping Peace with America's Military.
By Dana Priest.
Norton; 384 pages; $26.95

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About sponsorship

America and Europe

The widening Atlantic

Mar 20th 2003
From The Economist print edition

THERE is a particular intellectual pleasure to be gained from the originality and clarity of Robert Kagan's “Of Paradise and Power”, an extended essay on relations between the United States and Europe. Yet the conclusions of the “Kaganthesis” are also disquieting.

Mr Kagan argues that the long-held assumption of a community of interests and values binding the West together is now an illusion: “On major strategic and international questions today, Americans are from Mars and Europeans are from Venus: they agree on little and understand one another less and less.” The fundamental cleavage is about the all-important question of power: Americans believe that world order ultimately rests on military power; Europeans, by contrast, are wedded to a vision in which an orderly world is constructed on the basis of international law and multilateral institutions.

Not everybody has greeted the Kagan thesis with hosannas. One prominent European politician complains: “Until a few months ago if you accused the Americans of unilateralism it was like spitting in church. Now Kagan comes along and says essentially the same thing, and he's hailed as a genius.” But the originality of Mr Kagan's work is not so much that it identifies the division in attitudes between America and Europe, which has now become so visible, it is the way he explains it.

There are two main reasons, he argues, why Europeans fail to appreciate the need for raw power in running the international system. First, they are weak. Having little usable military power, they are naturally inclined to demand an international system based on law. Second, having created “perpetual peace” on their own continent through the European Union, they want to impose a similar system of binding international rules on the world.

Yet, Mr Kagan argues, the Europeans are deluding themselves. They are only able to reject militarism because the United States is there to take on the security challenges of the world. Even the great Franco-German rapprochement of the 1950s was only possible, he says, because the American military presence in Europe gave the French the confidence that there could be no German military resurgence.

Mr Kagan is an American neo-conservative, close to those advisers of George Bush who have been pressing for American action on Iraq and who are deeply suspicious of the United Nations. But it is striking that at least some elements of the Kagan thesis are shared by Charles Kupchan, a liberal academic who worked on European affairs in the Clinton administration. He too sees a growing division between America and Europe but one that is occurring by default, not by design.

Where Messrs Kupchan and Kagan part company, however, is on how seriously to take the European challenge. Mr Kagan, pointing to nugatory European defence spending, slow economic growth and an ageing population, dismisses the idea that Europe is likely to be an effective strategic competitor to the United States. Mr Kupchan acknowledges all these objections but believes that the “revolutionary process of political and economic integration” within Europe means that “America's preponderance and the stability it breeds are already beginning to slip away.”

Of Paradise and Power: America and Europe in the New World Order
By Robert Kagan

Knopf; 112 pages; $18.
Atlantic Books; £10

Buy it at
Amazon.com
Amazon.co.uk

The End of the American Era: U.S. Foreign Policy and the Geopolitics of the Twenty-First Century
By Charles A. Kupchan

Knopf; 391 pages; $27.95

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Amazon.com
Amazon.co.uk

This difference in analysis leads the two men to fundamentally different conclusions. Mr Kagan argues that Europe is really not capable of constraining the United States and that therefore America should simply do what it thinks best to safeguard its own security and that of the world. Although he also calls for America to show “more understanding of the sensibilities of others”, this seems to be more a case of good manners than strategic necessity.

Mr Kupchan, by contrast, because he believes that America's “unipolar moment” is already slipping away, urges American leaders to become much more committed to multilateral institutions like the United Nations. The United States may not see the point of such constraints right now, according to Mr Kupchan, but it will.

The potential pitfalls in both arguments are, in a way, mirror images. To this Brussels-based reviewer, Mr Kupchan seems too confident about the European Union's ability to make the leap from economic integration to a form of political union that will really allow it to operate as an effective actor on the world stage. To argue that “Europe today is unifying, just as Germany did more than a century ago” is a considerable leap-of-faith. By contrast, Mr Kagan may be too confident about America's ability to (in President Kennedy's phrase) “bear any burden” in its global mission. With rising budget deficits and a post dotcom economy, how many Iraqi-type wars—and subsequent occupations—will it really feel able to take on alone? As the journalists' favourite cliché has it, time alone will tell whether Mr Kagan or Mr Kupchan is closer to the truth.

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Business deals

Stacking the deck

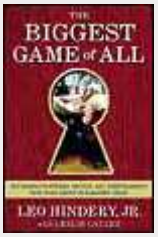
Mar 20th 2003
From The Economist print edition

LEO HINDERY'S place at the centre of America's cable and telecom industry over the past two decades has been obscured by men whose lives are really spent in the headlines—Rupert Murdoch, John Malone or AT&T's Michael Armstrong. But this has given Mr Hindery something that every author craves, an inside view on how these men work to try and club each other into oblivion.

On finishing business school in 1971, Mr Hindery signed up to a quintessential 19th-century industry, a mining company named Utah International, where he quickly learned two important lessons. The first was the knowledge gained from helping buy up other mining companies. The second was the insight that came when the company was sold to GE. The move cost Mr Hindery his job and led him to conclude that making deals was better than being dealt.

In 1986 Mr Hindery went to work for the Chronicle Publishing Company, a San Francisco newspaper-owner that, like many old-fashioned publishers, had made some useful acquisitions but could not separate the gold from the dross. Buried in its portfolio was a small holding in cable television. Unable to convince Chronicle to invest further, Mr Hindery put up $20,000 of his savings for a cable venture of his own; 250 deals later, his company, Intermedia Partners, was sold in the late 1990s at a profit to Mr Hindery of more than $100m with similar gains for the other investors.

The Biggest Game of All: The Inside Strategies, Tactics, and Temperaments That Make Great Dealmakers Great
By Leo Hindery and Leslie Cauley



Free Press; 272 pages; $25

Buy it at
Amazon.com
Amazon.co.uk

Such returns attract new investors who are often very naive. Out of this paradox springs the most compelling character in Mr Hindery's book: Mr Armstrong, whose tenure at AT&T was notable for destroying an extraordinary amount of shareholder wealth. An excellent salesman, particularly of his own capabilities, Mr Armstrong turned out to be a terrible buyer.

Desperate for a strategy that would allow AT&T's long-distance lines to by-pass local telephone monopolies, Mr Armstrong spent $48 billion purchasing TCI, a system run as a sideline by Mr Hindery and controlled by John Malone, a famously tough strong-arm. Mr Armstrong then compounded the mistake by spending a further $60 billion buying another cable outfit, MediaOne, without understanding the political and technical problems involved in running it. Last year, the entire investment was dumped for one-third of the purchase cost.

From the moment negotiations began, Mr Hindery says, poor Mr Armstrong was in over his head. He understood neither the limits of TCI's technology nor what allowed it to overstate its franchise. Some smarter telecom executives, including Mr Armstrong's predecessor, Bob Allen, had noticed these two points right away and blocked Mr Malone's efforts to put together a similar deal earlier on. If there is any solace for Mr Armstrong, it is that being played for a sucker is common in the cable industry. Mr Hindery recalls that when he was buying a cable system owned by Jack Kent Cooke, another colourful mogul, he was presented with a price based on subscriber numbers that had been heavily inflated by the inclusion of prisoners from a local jail who, though certainly in need of a distraction, were not in a position to subscribe.

American business books love lists and Mr Hindery organises his insights into a dozen useful tips, though the core lessons can be boiled down to just three: negotiating is a life or death struggle; exploit every loophole, particularly the ones of mind-numbing complexity involving issues like tax benefits and future residuals that hardly anyone understands. Then, in the final moments, when everyone is exhausted, slip in fresh conditions, particularly ones that will inflate your own future compensation. With any luck, these

will not be discovered until it is too late. Many intelligent chief executives of high character fail to learn these lessons. They, along with their doomed shareholders, would do well to read this book. It is to the opportunities that they present to the Hinderys of this world that this book should, by all rights, be dedicated.

The Biggest Game of All: The Inside Strategies, Tactics, and Temperaments That Make Great Dealmakers Great.
By Leo Hindery with Leslie Cauley.
Free Press; 272 pages; $25

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History on television

Boys on the box

Mar 20th 2003
From The Economist print edition

EVEN charismatic academic historians have neither the clout nor the vision to revolutionise the presentation of history on television—which may explain why the genre is often so dumbed down and so dire. They can, however, get their own back when they write tie-in books.

Niall Ferguson's “Empire” is far better than the television series it accompanied. Fluently written, engaging, beautifully designed and spectacularly illustrated, “Empire” is a model of how to do popular history. The author lives and breathes scholarship, but he is also adept at picking out fascinating micro-histories and wrests interesting perceptions from vivid evidence. Although “Empire” is not a specialist's book, it is strewn with little-known case-studies and unfamiliar stories.

Mr Ferguson's defence of the British empire is robust. He admits enough of its iniquities to inspire confidence in his readers and omits enough to spare their sensibilities, while asserting, at the same time, the virtues which acquit the British of really criminal imperialism. The empire emerges credibly, as the worst the world has ever known, except for all the others.

Andrew Roberts's new book is a spin-off from “Secrets of Leadership”, his new TV series. As far as ratings go, the idea is brilliant and Mr Roberts is a fluent writer with a sense of humour: his passages on Hitler's anti-smoking vegetarianism are particularly funny. But in scholarship and intellectual coherence he is much inferior to Mr Ferguson. The humdrum, unconvincing “secrets” have to be picked out of a lot of irrelevant, though entertaining, digressions: Hitler was “charismatic”, Churchill “inspirational”. Hitler was “ordinary”, Churchill “extraordinary”.

Leadership, he tells us, is made of calculated risk-taking, defiance of logic, confidence-trickery, delegation to “sneaks and stinkers”, and opportunism. Mr Roberts leaves the reader uninterested in these reflections and seems bored by them himself. Hitler occupies little of the book, which Churchill dominates. The author's real aim is to exonerate his hero from the charge that heroes always face: that history would have been much the same without them. He fails, but manages to write a rattlingly enjoyable book along the way.

Both books are part of a lurch by tele-history in Britain towards the political right. In the great days of the BBC's “Timewatch”, revisionism was the fashion and historical mythbusters made viewers challenge their image of their past. Now television has taken on the role that Kenneth Baker wanted to give schools when he was education secretary in the 1980s: shoring up Britain's nation-building legends. Simon Schama offers a hallowed version of history that is ominously close to the Whig interpretation of the march of improvement. David Starkey has re-gilded Merrie England and restored the image of the Tudor era as England's age of national greatness. Now Mr Ferguson has exonerated the empire and Mr Roberts has burnished Churchill's halo. But will the polish last into the next series?

Empire: The Rise and Demise of the British World Order and its Lessons for Global Power.
By Niall Ferguson.
Basic Books; 352 pages; $35.

Empire: The Rise and Demise of the British World Order and its Lessons for Global Power
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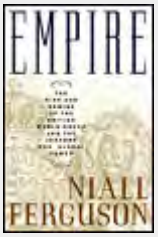

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Penguin/Allen Lane; £25

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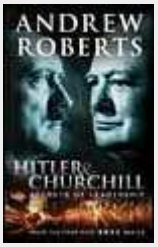
Hitler & Churchill: Secrets of Leadership
By Andrew Roberts



Weidenfeld & Nicolson; 202 pages; £18.99

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French political memoirs

Song of Roland

Mar 20th 2003
From The Economist print edition

THE background smacks of soap opera. Roland Dumas—successively or simultaneously—Resistance hero, connoisseur of the arts and of beautiful women, lawyer to Picasso and Giacometti, foreign minister of France and president of its highest court, the Conseil Constitutionnel—is arrested for accepting bribes proffered by his mistress on behalf of Elf, a state-owned oil company. The trial in 2001 leads to a prison sentence, immediately appealed. The appeal leads to acquittal in January 2003. At the age of 80, and after five years of judicial purgatory, the honour of Mr Dumas can now be restored.

L'Epreuve, les preuves
By Roland Dumas

Michel Lafon; 438 pages; euro21

Buy it at
Amazon.fr

Hence this book, a statement of innocence (the title's play on words roughly translates as “the ordeal and the facts”) laced with a desire for revenge. Will readers be convinced? Possibly, though, as Mr Dumas bemoans, it is normal to conclude there is no smoke without fire—and the French media produced plenty of smoky details about a mistress who provided him with Greek statuettes and hand-made shoes, Elf's Swiss bank accounts and the payment of massive commissions to arrange the politically sensitive sale of French frigates to Taiwan.

For all of this Mr Dumas has his explanations, shamefully ignored, he claims, by investigating judges keen to fit the facts to their presumption of his guilt.

Will readers, convinced or not, be sympathetic? Not as much as Mr Dumas would like. He writes elegantly enough of his service to the state, of his battles within government to stop—not promote—the Taiwan contract. Above all, he writes of his sense of honour. Addressing the court when his trial began, Mr Dumas spoke movingly of the risk of dishonour as his life approached its end.

But when he writes of other people there is too often a disdainful distancing. For example, Christine Deviers-Joncour slides—his word—into the author's bed on page 49. For the 400 pages that follow, however, she is virtually a cipher, and he shows precious little compassion for the months she spent in prison as the judges tried to persuade her to testify against her distinguished lover. As for Eva Joly, the Norwegian-born judge who led the Elf investigation, Mr Dumas's scorn is such that he can hardly bear to identify her by name.

But if readers are neither convinced nor sympathetic, they should at least be dismayed by the author's inside knowledge of the cynical collaboration between France's judiciary, its press and its politicians. Mr Dumas directs his anger at them all, including his old friend Jean-Pierre Chevènement. Particular venom is reserved for *Le Monde* and Edwy Plenel, an investigative journalist and now its editor.

He denounces the judges' reliance on anonymous informers (France, he writes sadly, had more informers than any other country occupied by Nazi Germany). He notes that in decisions on judicial malpractice by the European Court of Human Rights in Strasbourg, France is by far the worst offender. Yet he fails to state the obvious: the faults he denounces are part of a culture of which he, not least as minister and confidant of the late President Mitterrand, was an important part.

L'Epreuve, les preuves.
By Roland Dumas.
Michel Lafon; 438 pages; euro21

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About sponsorship

Art Deco

What a swell party it was

Mar 20th 2003
From The Economist print edition

A new exhibition shows off the exuberance of Art Deco

V&A Cartier

COLE PORTER'S 1934 musical, “Anything Goes”, could be the motto for Art Deco, a style that revelled in glamour until the second world war brought the party to an end. In the musical, a New York showgirl marries an English lord. In real life, Josephine Baker, a black dancer, became the queen of Paris chic and an Indian maharaja built a pink Deco palace, reinventing himself as the apogee of top-hat-and-tails urbanity. But then the truth is often unusual, as can be seen in a new travelling exhibition that opens at London's Victoria and Albert Museum this month.

This glossy show, which will go on to North America, looks at how the inter-war years uncorked a highly original and bubbly style that intoxicated people into embracing the ideal of modern design. Sexy and eye-catching, with its characteristic sunbursts, lightning bolts, glittering surfaces, abstracted geometries and exotic references, the style grew out of a desire to create a series of motifs evoking the machine age. Little wonder that it was first called “industrial modern” or “jazz modern”.

The name by which we now know the movement grew out of the 1925 *Exposition internationale des arts décoratifs et industriels modernes*, which was organised in Paris by the French government to reassert France's primacy in producing luxury furniture and fashion. Ironically, the Paris salon had the opposite effect, for the new style was so infinitely adaptable to local contexts that foreign visitors to the salon wanted to take Art Deco home and copy it. In Japan the emperor employed Deco designers to help rebuild Tokyo after the earthquake of 1923. The Maharaja of Indore commissioned a traditional Indian silver-plated four-poster bed, with skyscrapers holding up the canopy in place of lotus leaves. Soon, an estimated 80mcinema-goers a week were visiting Art Deco shrines like the Odeon cinemas in London or the Eros in Bombay.

Not everyone was as enthusiastic. Le Corbusier coined the name as an insult, and held that Art Deco was decorative and without meaning or morality. His attitude reflected the stand-offish relationship between Modernism and Deco—Modernism aspired to a Utopian society but Deco had no such high-minded ambitions. Deco designers used their talents to entice customers into buying more objects, and they nourished desire, fantasy and aspirational glamour among new generations of consumers; in short, Art Deco celebrated the individual over the collective.

America was one of the only countries not to participate in the Paris salon because the commerce secretary, Herbert Hoover, believed that modern decorative art did not exist in the United States. Undeterred, American designers, architects and industrial engineers flocked to Paris and returned home determined to adapt Deco's geometric lines to the modern metropolis and its truest icon, the skyscraper. In New York, the Chrysler and Empire Statebuildings—temples to the modern—were directly inspired by it. The stockmarket crash of 1929, and the slump that followed, helped Deco to spread. It forced American designers to streamline objects for mass production and to use cheap modern materials, such as Bakelite and chrome, to mimic the shine of ebony and silver.

Art Deco favoured decadence over depth; it was more Irving than Isaiah Berlin. But most people like a melody they can dance to. Art Deco made people smile. It was a swell party while it lasted.

"Art Deco: 1910-1939" is at the Victoria and Albert Museum, London, from March 27th-July 20th, at the Royal Ontario Museum, Toronto, from September 20th-January 4th, 2004, at the Fine Arts Museums of San Francisco in spring 2004 and at the Museum of Fine Arts, Boston, autumn 2004. The book of the exhibition is available from V&A Publications, £40

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William Sunderman

Mar 20th 2003
From The Economist print edition

Frederick William Sunderman, a portent of the future, died on March 9th, aged 104

Peter R. Rekus The Patriot-News

WHEN William Sunderman turned 100 he was named by the United States Congress as the oldest person in the country still at work. He was putting in an eight-hour day editing articles for a medical journal. For a break he liked to take a turn on an exercise bicycle.

Congress was not just giving a nod to a remarkable American. It was hoping that Dr Sunderman's enthusiasm for work would eventually be matched by thousands, even millions, of elderly Americans. Perhaps not all could be expected to be slogging away until senility took hold, but working beyond customary retirement age would come to be regarded as normal. One American in seven is over 65, a proportion that by 2030 is likely to rise to one in four. Governments like oldies to keep on working, partly because they are less likely to seek welfare. And pensions do not always keep up with rising living costs. But a gain for employers is that oldies often offer special skills and experience. Many are happy to be retrained, and there is less turnover than among younger staff.

They are also likely to live longer, Dr Sunderman said. He agreed with advice on long life offered by other centenarians, such as a sensible diet, absence of stress, and a happy home life. “But though no easy answers are to be found, I am convinced that one of the most important items for longevity is the maintenance of a daily work schedule.” He spoke of friends who had retired to Florida. To begin with, he said, they played golf regularly and had a drink before dinner. Eventually they played golf less and started to drink at lunchtime. “Then they forget about golf, become alcoholics and die.” Dr Sunderman said he personally had too many interests to retire. “I want to live.” He agreed he was luckier than most. But better to get a job at Wal-Mart or McDonald's, which employ many older people, than stay at home doing nothing.

Perhaps, but some would say that working in a dull job is just another way of being bored to death. Despite the growing number of centenarians (about 50,000 in America at present, expected to rise to 96,000 by 2005) it has to be said that accounts of Methuselahs who not only reach an improbable age but keep their wits about them remain rare. There was something special about Dr Sunderman.

The pioneer

A list of William Sunderman's accomplishments in one reference book takes up three columns. Where is the item that he will be remembered by? What about the Sunderman Sugar Tube? This is a tool for treating diabetics, measuring glucose in the blood. Dr Sunderman pioneered the use of insulin in the United States to treat diabetes. Then there is the Manhattan Project, the name given to America's development of the atomic bomb during the second world war. Dr Sunderman was the director of one of the teams watching over the health of the atomic scientists and developed an antidote for a form of metal poisoning, first trying it out on himself. After the war he was a medical consultant for America's space programme.

For many years he was a teacher: he lists positions held at nine medical schools. In 1971 he founded a journal called *Annals of Clinical and Laboratory Science*, which he was helping to edit up to a few weeks before his death. He wrote about 40 books and some 300 scientific papers. There seemed to be nothing that did not interest him. “It helps to have innate curiosity,” he said. Dr Sunderman liked to quote Voltaire's aphorism, “How infinitesimal is the importance of anything I do, but how infinitely important it is that I should do it.”

The picture emerges of a man whose life mirrored medical and scientific progress over many decades. When William Sunderman was born in 1898 aspirin had just been discovered. When he graduated from Pennsylvania University's medical school in 1923 the first adhesive bandages were being marketed (and were unpopular). When he died last week the possibilities of genetic engineering were being explored. Some things never changed. His three-piece suits were reassuringly old-fashioned. The heavens, he observed, remained agreeably unchanged: he saw Halley's comet when it passed over Pennsylvania in 1910 and again in 1986, when he was in New Zealand doing research.

He went down with tuberculosis in 1937, often a killer disease before antibiotics provided a cure. He survived, he said, helped by music. He had been given a violin when he was five. Unlike many children, he learnt to play it and went on playing all through his life. In recent years most summers he took his 17th-century violin, made by Antonio Stradivari, to Germany and played with a professional group. On his 100th birthday he gave a recital at his former college in Gettysburg, Pennsylvania. Music, he said, helped to balance his life. He enjoyed the “quest for knowledge and the triumphs and disappointments of research” but he looked forward at the end of his working day to losing himself in chamber music.

Many doctors, he pointed out, make music. There are any number of amateur orchestras in America and Europe composed of medical people. Harmony, Dr Sunderman said, is what helps to keep people going.

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Overview

Mar 20th 2003
From The Economist print edition

Even before hostilities began in the conflict with Iraq, **shares** already seemed to be having a good war. Stockmarkets in America rose strongly in the week leading up to President Bush's deadline for Saddam Hussein to leave Iraq or face military action. The **Dow Jones Industrial Average** rose by 9.4%, and the **Nasdaq** jumped by 9.2%. European stockmarkets posted even stronger gains during the same period: France's **CAC-**40 soared by 18.1%, Germany's Xetra-DAX rose by 18.7%, and Britain's FTSE-100 climbed by 14.6%.

While global stockmarkets seem optimistic, **American consumers** are not. The University of Michigan's consumer-confidence index fell from 79.9 in February to 75.0 in March, its lowest reading in more than a decade. America's industrial production grew by a meagre 0.1% in February, a disappointing decline from the 0.8% growth seen in January. Brutal winter weather and economic uncertainty caused housing starts to fall by 11.0% in February. The Federal Reserve left interest rates unchanged at 1.25%; it surprised analysts by keeping its assessment of economic risks at “neutral.”

Industrial production in the **euro area** rose by 0.7% in the 12 months to February.

Higher oil prices are boosting **inflation** throughout Europe. Consumer-price inflation in the **euro area** ran at 2.4% in February, its highest rate in 11 months. February was the seventh straight month in which euro-area inflation exceeded the ECB's 2.0% ceiling, making interest-rate cuts difficult. Consumer prices rose by 3.4% in **Sweden**, and by 2.6% in **France**, in the year to February. In February, **Britain's** RPIX measure of inflation, which excludes mortgage interest payments, rose to 3.0%, a five-year high.

By the International Labour Organisation's measure, unemployment in **Britain** fell from 5.2% in the three months to October to 5.0% in the three months to January, the lowest rate since the second quarter of 2001. The number of people claiming jobless benefits, however, rose slightly in February.

Japan's manufacturers may be seeing a ray of light. In January, industrial production rose by 2.0%, revised upwards from an earlier estimate of 1.5%.

Australia's GDP rose by a robust 3.0% in the year to the fourth quarter, making the country's economy one of the strongest in the world last year.

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Output, demand and jobs

Mar 20th 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 3.0	Q4	+ 1.6	+ 3.1	+ 3.4	+ 1.6	Q3	+ 5.4	Q4	6.0	Feb	6.6
Austria	+ 1.2	Q3	+ 0.3	+ 1.2	+ 2.0	– 1.5	Dec	+ 0.9	Dec	4.1	Jan	3.9
Belgium	+ 1.6	Q4	+ 0.8	+ 1.3	+ 2.3	+ 3.3	Jan	– 4.9	Dec	11.8	Feb†	10.8
Britain	+ 2.1	Q4	+ 1.3	+ 2.2	+ 2.7	– 0.7	Jan	+ 4.2	Jan	5.0	Jan††	5.1
Canada	+ 3.9	Q4	+ 1.6	+ 3.0	+ 3.3	+ 5.6	Dec	+ 1.4	Dec	7.4	Feb	7.9
Denmark	+ 0.9	Q4	– 0.1	+ 1.8	+ 2.4	– 1.7	Dec	+ 2.4	Dec	5.5	Jan	5.0
France	+ 1.7	Q4	+ 0.9	+ 1.4	+ 2.4	+ 1.0	Jan	– 1.9	Dec	9.1	Jan	8.8
Germany	+ 0.5	Q4	– 0.1	+ 0.5	+ 1.9	– 0.2	Jan	+ 1.3	Jan	10.5	Feb§	9.6
Italy	+ 1.0	Q4	+ 1.7	+ 1.2	+ 2.2	+ 2.1	Dec	+ 1.9	Nov‡	8.9	Oct	9.3
Japan	+ 2.8	Q4	+ 2.2	+ 0.5	+ 0.6	+ 7.4	Jan	– 2.4	Jan	5.5	Jan	5.3
Netherlands	+ 0.3	Q4	+ 0.4	+ 0.8	+ 2.2	– 2.3	Jan	– 2.5	Dec	4.6	Feb†**	3.7
Spain	+ 2.1	Q4	+ 1.4	+ 2.2	+ 2.9	+ 2.5	Dec	+ 4.8	Nov‡	12.1	Jan	10.9
Sweden	+ 1.3	Q4	+ 1.2	+ 1.9	+ 2.5	+ 3.7	Jan	+ 4.3	Jan	5.1	Jan†	4.4
Switzerland	+ 0.8	Q4	+ 1.4	+ 0.9	+ 1.9	– 3.5	Q3	– 2.8	Dec	3.9	Feb†	2.6
United States	+ 2.9	Q4	+ 1.4	+ 2.5	+ 3.5	+ 1.8	Feb	+ 4.3	Jan	5.8	Feb	5.6
Euro area	+ 1.3	Q4	+ 0.7	+ 1.1	+ 2.2	+ 0.7	Jan	– 1.9	Dec	8.6	Jan	8.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q4	+ 2.8	na	na	+ 0.3	Jan	+ 2.0	Nov	9.0	Feb†	9.4
Greece	+ 3.5	Q4	na	na	na	– 0.3	Jan	na		na		na
Iceland	+ 3.6	2001	na	na	na	+12.2	2001	na		4.1	Feb†	2.6
Ireland	+ 6.9	Q3	na	na	na	+ 5.4	Jan	– 0.4	Dec	4.5	Feb†	4.3
Luxembourg	+ 1.0	2001	na	na	na	+ 3.6	Dec	– 6.1	Oct	3.8	Feb†	2.9
New Zealand	+ 5.0	Q3	+ 5.0	na	na	+ 5.1	Q3	+ 7.3	Q4	4.9	Q4	5.4
Norway	+ 0.9	Q3	– 0.9	na	na	– 4.6	Jan	+ 2.7	Jan	3.7	Q4	3.3
Portugal	– 0.5	Q3	na	na	na	+ 0.8	Jan	+ 3.2	Jan	6.2	Q4†	4.2

*% change at an annual rate. †Not seasonally adjusted. ‡New series. ††Nov-Jan; claimant count rate 3.1% in Feb. §EU harmonised rate 8.7% in Feb. **Nov-Jan, new series

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Prices and wages

Mar 20th 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 3.0	Q4	+ 3.1	+ 2.7	+ 2.9	+ 1.6	Q4	– 0.7	+ 3.9	Q4	+ 4.9
Austria	+ 1.7	Feb	+ 1.9	+ 1.7	+ 1.5	+ 2.1	Feb	– 0.6	+ 2.2	Jan	+ 2.5
Belgium	+ 1.7	Feb	+ 2.6	+ 1.3	+ 1.5	+ 1.1	Jan	– 1.6	+ 2.2	Q4	+ 3.1
Britain	+ 3.2	Feb	+ 1.0	+ 2.6	+ 2.5	+ 1.6	Feb	– 0.2	+ 3.6	Jan	+ 3.0
Canada	+ 4.5	Jan	+ 1.3	+ 2.8	+ 2.3	+ 2.0	Jan	– 1.1	+ 1.8	Dec	+ 3.7
Denmark	+ 2.9	Feb	+ 2.5	+ 2.1	+ 1.9	+ 1.3	Jan	+ 0.6	+ 3.9	Q4	+ 4.1
France	+ 2.6	Feb	+ 2.0	+ 1.5	+ 1.4	+ 2.1	Jan	– 1.1	+ 3.5	Q3	+ 4.2
Germany	+ 1.3	Feb	+ 1.8	+ 1.0	+ 1.1	+ 1.6	Feb	– 0.5	+ 2.6	Jan	+ 2.3
Italy	+ 2.6	Feb	+ 2.3	+ 2.3	+ 2.0	+ 2.5	Jan	– 1.2	+ 2.1	Dec	+ 2.8
Japan	– 0.4	Jan	– 1.4	– 0.6	– 0.5	– 0.9	Feb†	– 2.6	+ 0.5	Jan	– 2.7
Netherlands	+ 2.7	Feb*	+ 3.7	+ 2.5	+ 2.2	+ 4.3	Jan	– 1.9	+ 3.0	Jan	+ 4.3
Spain	+ 3.8	Feb	+ 3.1	+ 3.0	+ 2.7	+ 2.6	Jan	+ 0.1	+ 3.8	Q3	+ 3.6
Sweden	+ 3.4	Feb	+ 2.8	+ 2.2	+ 2.1	– 0.2	Jan	– 0.5	+ 4.0	Dec	+ 3.2
Switzerland	+ 0.9	Feb	+ 0.6	+ 0.7	+ 1.0	nil	Feb	– 1.5	+ 2.5	2001	+ 1.3
United States	+ 2.6	Jan	+ 1.1	+ 2.2	+ 1.9	+ 3.5	Feb	– 2.6	+ 3.2	Feb	+ 3.5
Euro area	+ 2.4	Feb	+ 2.5	+ 1.7	+ 1.6	+ 2.0	Jan	– 0.8	+ 3.4	Q4	+ 3.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.9	Feb	+ 1.8	na	na	+ 2.3	Feb	– 1.4	+ 3.3	Q4	+ 4.5
Greece	+ 4.3	Feb	+ 3.4	na	na	+ 0.5	Jan	+ 5.2	na		na
Iceland	+ 2.2	Mar	+ 8.7	na	na	+ 3.5	Mar	+ 9.6	+ 5.5	Jan	+10.0
Ireland	+ 5.1	Feb	+ 4.7	na	na	– 0.6	Dec	+ 0.2	+ 6.2	Q3	+ 8.1
Luxembourg	+ 2.5	Feb	+ 2.3	na	na	+ 1.2	Dec	– 2.0	+ 0.5	Dec	nil
New Zealand	+ 2.7	Q4	+ 1.8	na	na	– 0.9	Q4	+ 1.8	+ 2.1	Q4	+ 2.2
Norway	+ 4.8	Feb	+ 0.8	na	na	+11.9	Feb	–11.5	+ 5.2	Q4	+ 4.4
Portugal	+ 4.2	Feb	+ 3.2	na	na	+ 2.3	Jan	– 0.5	+ 0.4	Jan*	+ 1.3

*Revised series.

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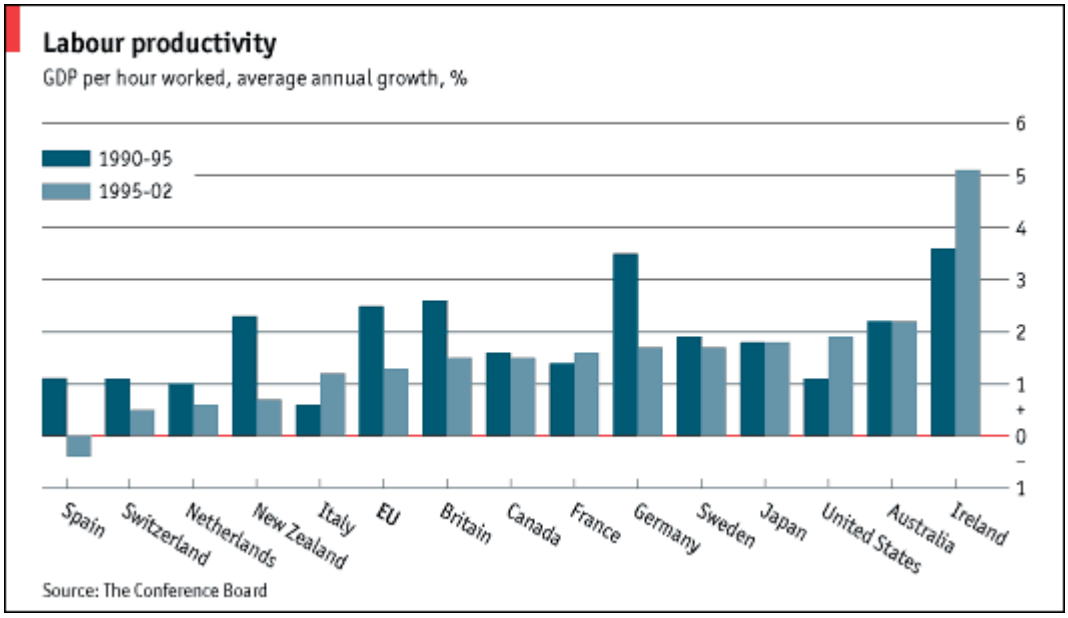
Labour productivity

Mar 20th 2003
From The Economist print edition



For most of the postwar period, productivity growth was swifter in the European Union than in the United States. This pattern continued in the first half of the 1990s. But since 1995, productivity growth has quickened in America whereas it has decelerated in Europe. According to the Conference Board, these new trends have remained broadly intact during the global slowdown of the past two years.

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Money and interest rates

Mar 20th 2003
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Mar 19th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 9.7	+10.4	Jan	4.75	4.56	4.58	5.46	6.33	6.50
Britain	+ 6.2	+ 6.7	Feb	3.59	4.09	3.63	4.50	5.27	6.16
Canada	+ 6.7	+ 4.9	Jan	3.06	2.05	3.81	5.16	5.77	6.82
Denmark	+ 7.4	+ 9.1	Jan	2.75	3.70	2.82	4.41	5.36	7.76
Japan	+21.3	+ 2.0	Feb	0.02	0.06	0.04	0.71	1.45	0.84
Sweden	– 0.1	+ 4.3	Dec	3.37	4.12	3.69	4.70	5.56	4.18
Switzerland	+12.9	+ 8.7	Feb	0.32	1.70	0.71	2.53	3.58	3.44
United States	+ 3.8	+ 6.3	Feb	1.21	1.88	1.70	3.96	5.40	6.08
Euro area†	+ 9.8	+ 7.4	Jan	2.56	3.38	2.54	4.17	5.13	4.76

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.93%, Japan No.247 0.71%. Central bank rates: US fed funds 1.25%, ECB refinancing 2.50%, BOJ overnight call 0.001%, BOE repo 3.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Mar 20th 2003
From The Economist print edition

1995=100

	Mar 11th	Mar 18th*	% change on one month	% change on one year
Dollar index				
All items	77.4	76.5	– 2.9	+ 8.3
Food	78.7	77.4	– 4.9	+ 9.6
Industrials				
All	75.7	75.4	– 0.0	+ 6.5
Nfa†	78.8	79.1	– 0.1	+12.7
Metals	73.0	72.3	– 0.0	+ 1.3
Sterling index				
All items	76.0	77.2	– 1.2	– 1.4
Euro index				
All items	92.1	94.7	– 2.4	–10.1
Yen index				
All items	96.3	96.8	– 3.1	– 2.4
Gold				
$ per oz	350.75	339.25	– 1.6	+15.6
West Texas Intermediate				
$ per barrel	36.70	31.47	–14.6	+26.1

* Provisional. † Non-food agriculturals.

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Stockmarkets

Mar 20th 2003
From The Economist print edition

Market indices

	Mar 19th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	2,814.7	3,049.6	2,673.3	+ 4.7	-18.2	- 5.4	- 0.4
Austria (ATX)	1,138.7	1,187.8	1,120.2	+ 1.7	-34.4	- 1.0	- 0.1
Belgium (Bel 20)	1,706.4	2,074.1	1,426.6	+19.6	-53.7	-15.7	-15.0
Britain (FTSE 100)	3,765.4	4,009.5	3,287.0	+14.6	-45.7	- 4.4	- 7.2
Canada (Toronto Composite)	6,453.5	6,837.3	6,228.6	+ 3.6	-43.3	- 2.4	+ 4.0
Denmark (KBX)	159.9	173.2	145.0	+10.3	-47.0	- 3.8	- 3.0
France (SBF 250)	1,895.4	2,144.8	1,630.1	+16.3	-56.8	- 7.7	- 6.9
(CAC 40)	2,837.7	3,210.3	2,403.0	+18.1	-59.0	- 7.4	- 6.5
Germany (DAX)	2,615.2	3,157.3	2,203.0	+18.7	-67.6	- 9.6	- 8.8
Italy (BCI)	1,039.7	1,142.4	959.4	+ 8.4	-52.4	- 4.8	- 3.9
Japan (Nikkei 225)	8,051.0	8,790.9	7,862.4	+ 1.4	-79.3	- 6.2	- 6.9
(Topix)	789.1	865.4	760.1	+ 0.9	-72.6	- 6.4	- 7.2
Netherlands (AEX)	267.8	337.3	218.4	+22.6	-61.8	-17.0	-16.3
Spain (Madrid SE)	643.8	683.8	576.8	+11.6	-43.8	+ 1.5	+ 2.5
Sweden (Affarsvarlden Gen)	142.6	153.4	127.8	+11.6	-64.4	- 1.8	- 1.3
Switzerland (Swiss Market)	4,261.8	4,965.3	3,675.4	+16.0	-49.3	- 8.0	- 8.4
United States (DJIA)	8,265.5	8,842.6	7,524.1	+ 9.4	-29.5	- 0.9	- 0.9
(S&P 500)	874.0	931.7	800.7	+ 8.7	-42.8	- 0.7	- 0.7
(NASDAQ Comp)	1,397.1	2,359.5	1,271.5	+ 9.2	-72.3	+ 4.6	+ 4.6
Europe (FTSE Eurotop 300)*	791.2	890.8	682.7	+15.9	-53.6	- 7.7	- 6.8
Euro area (FTSE Ebloc 100)*	661.2	757.2	565.7	+16.9	-57.4	- 8.0	- 7.1
World (MSCI)†	768.8	830.7	710.8	+ 8.2	-46.9	na	- 3.0
World bond market (Salomon)‡	529.4	551.7	518.6	- 3.7	- 4.1	na	+ 0.8

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Mar 20th 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Mar 19th	year ago	Currency units per $ Mar 19th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2002‡
Australia	− 6.0	Jan	− 17.7	Q4	− 4.3	− 3.8	76.7	75.8	1.69	1.88	2.64	1.79	1.41	0.1
Austria	+ 0.4	Dec	+ 0.9	Jan	− 0.7	− 1.4	101.7§	100.3	0.94	1.13	1.48	–	0.79	-1.6
Belgium	+ 16.4	Jan	+ 12.8	Sep	+ 4.9	+ 5.0	101.4§	99.0	0.94	1.13	1.48	–	0.79	nil
Britain	− 53.6	Jan	− 20.5	Q3	− 1.9	− 1.8	100.9	106.0	0.64	0.70	–	0.68	0.53	-1.4
Canada	+ 34.7	Jan	+ 11.0	Q4	+ 1.9	+ 2.0	79.5	76.5	1.48	1.58	2.32	1.57	1.24	0.6
Denmark	+ 8.1	Jan	+ 5.1	Jan	+ 2.0	+ 1.7	105.0	101.9	7.01	8.40	11.0	7.43	5.86	2.2
France	+ 9.0	Jan	+ 27.3	Jan	+ 1.7	+ 1.5	104.5§	101.6	0.94	1.13	1.48	–	0.79	-2.7
Germany	+120.0	Jan	+ 48.3	Jan	+ 1.7	+ 1.5	101.8§	98.5	0.94	1.13	1.48	–	0.79	-3.7
Italy	+ 8.2	Jan	− 6.6	Dec	− 0.2	− 0.1	74.5§	72.5	0.94	1.13	1.48	–	0.79	-2.3
Japan	+ 93.6	Jan	+113.4	Jan	+ 2.7	+ 2.9	131.4	128.5	120	132	187	127	–	-7.9
Netherlands	+ 29.1	Jan	+ 9.1	Q4	+ 3.1	+ 3.2	100.7§	97.9	0.94	1.13	1.48	–	0.79	-0.8
Spain	− 40.0	Dec	− 17.1	Dec	− 2.0	− 2.0	76.0§	74.2	0.94	1.13	1.48	–	0.79	nil
Sweden	+ 15.0	Jan	+ 9.9	Dec	+ 3.3	+ 3.3	78.9	77.4	8.68	10.2	13.6	9.19	7.25	1.7
Switzerland	+ 4.1	Jan	+ 29.8	Q3	+10.8	+11.6	115.9	112.8	1.39	1.66	2.17	1.47	1.16	na
United States	−495.8	Jan	−503.4	Q4	− 5.1	− 4.0	108.9	122.3	–	–	1.56	1.06	0.84	-3.1
Euro area	+ 97.7	Dec	+ 60.2	Dec	+ 0.9	+ 0.8	86.1	78.6	0.94	1.13	1.48	–	0.79	-2.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.5	Jan	+ 10.5	Jan	na	na	80.4§	78.2	0.94	1.13	1.47	–	0.79	3.2
Greece	− 22.0	Jan	− 10.1	Jan	na	na	58.7§	57.5	0.94	1.13	1.47	–	0.79	-1.1
Iceland	+ 0.1	Jan	nil	Q4	na	na	93.0**	80.4	79.9	100.6	125	84.6	66.8	0.3
Ireland	+ 36.0	Dec	+ 0.1	Q3	na	na	91.6§	87.2	0.94	1.13	1.47	–	0.79	-0.5
Luxembourg	− 3.1	Dec	+ 2.1	Q3	na	na	101.4§	99.0	0.94	1.13	1.47	–	0.79	1.8
New Zealand	− 0.8	Jan	− 1.7	Q3	na	na	97.4	85.7	1.81	2.26	2.84	1.92	1.52	1.6
Norway	+ 28.0	Feb	+ 26.2	Dec	na	na	100.4	98.9	7.44	8.73	11.6	7.88	6.22	12.4
Portugal	− 12.8	Dec	− 9.9	Dec	na	na	91.3**	89.9	0.94	1.13	1.47	–	0.79	-3.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD estimate. **IMF, November average.

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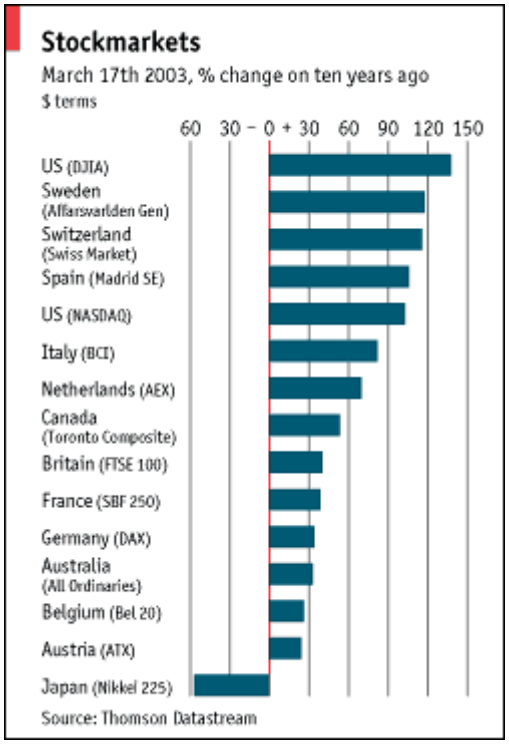
Stockmarkets

Mar 20th 2003
From The Economist print edition



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Overview

Mar 20th 2003
From The Economist print edition

Turkey's financial markets suffered as a war with Iraq loomed and the prospects of American financial assistance receded again. American officials said that Turkey's proposed overflight rights for American planes in an Iraq war would not justify billions of dollars in aid.

Brazil's consumer prices rose by 1.6% in February, the slowest monthly inflation rate in five months. Nonetheless, the country's central bank kept the benchmark interest rate steady at 26.5%. It is worried about the inflationary effects of high oil prices.

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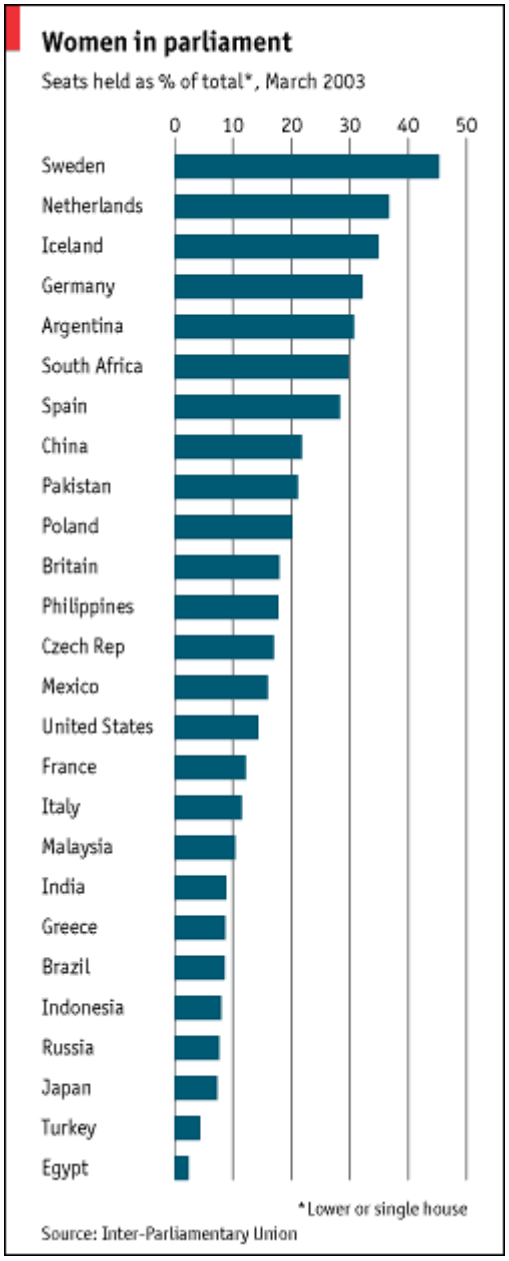
Women in parliament

Mar 20th 2003
From The Economist print edition

The ranks of women have risen slightly over the past year, according to the Inter-Parliamentary Union's latest survey. Although one in seven of the world's parliamentarians is a woman, wide differences persist across countries. Nordic countries boast the biggest female representation, of around 40%, while Arab states average only 6%. Pakistan's parliament is one-fifth female; America's is 14%.



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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.1	Q4	+19.8	Feb	+ 0.2	Feb	+23.9	Feb	+17.4	2001	269.9	Oct
Hong Kong	+ 5.0	Q4	– 7.2	Q3	– 1.6	Jan	– 6.9	Jan	+16.5	Q3	113.7	Feb
India	+ 5.8	Q3	+ 6.4	Jan	+ 3.4	Jan	– 7.9	Jan	+ 4.5	Q3	69.2	Feb
Indonesia	+ 3.8	Q4	+ 7.1	Dec‡	+ 7.3	Feb	+25.7	Jan	+ 7.5	Q3	31.1	Jan
Malaysia	+ 5.6	Q4	+ 1.0	Jan	+ 1.6	Feb	+13.9	Jan	+ 6.6	Q3	34.5	Feb
Philippines	+ 5.8	Q4	– 5.0	Dec	+ 3.1	Feb	+ 0.7	Jan	+ 6.1	Sep	13.1	Feb
Singapore	+ 2.7	Q1	+13.5	Jan	+ 0.9	Jan	+ 9.8	Jan	+18.7	Q4	83.6	Feb
South Korea	+ 5.8	Q3	+ 3.6	Jan	+ 3.9	Feb	+ 9.3	Feb	+ 5.6	Jan	122.8	Jan
Taiwan	+ 4.2	Q4	+ 8.5	Jan	– 1.5	Feb	+16.2	Feb	+25.8	Q4	166.3	Feb
Thailand	+ 6.1	Q4	+13.0	Jan	+ 1.9	Feb	+ 4.6	Jan	+ 8.0	Jan	38.9	Jan
Argentina	–10.1	Q3	+13.1	Jan	+36.1	Feb	+15.9	Jan	+ 7.0	Q3	9.5	Jan
Brazil	+ 3.4	Q4	+ 2.8	Jan	+15.9	Feb	+15.0	Feb	– 6.3	Jan	38.6	Jan
Chile	+ 1.8	Q3	+ 2.8	Jan	+ 3.8	Feb	+ 2.3	feb	– 0.6	Q4	16.5	Feb
Colombia	+ 2.0	Q4	+ 5.6	Dec	+ 7.2	Feb	nil	Dec	– 1.5	Q3	10.9	Feb
Mexico	+ 1.9	Q4	+ 0.3	Jan	+ 5.5	Feb	– 7.6	Jan	–14.5	Q4	51.5	Jan
Peru	+ 6.3	Dec	+11.7	Dec	+ 2.8	Feb	+ 0.3	Dec	– 1.1	Q4	9.3	Jan
Venezuela	–16.7	Q4	–10.5	Oct	+38.7	Feb	+13.9	Q4	+ 7.6	Q4	8.6	Dec
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.0	Dec	– 7.8	Nov	+ 0.1	Q3	13.2	Dec
Israel	+ 1.3	Q4	+ 1.3	Dec	+ 5.1	Feb	– 5.5	Feb	– 2.1	Q4	23.4	Feb
South Africa	+ 3.0	Q4	+ 1.5	Jan	+12.5	Feb	+ 3.9	Jan	nil	Q3	5.6	Jan
Turkey	+ 7.9	Q3	+13.2	Jan	+27.0	Feb	–15.7	Dec	+ 0.1	Nov	29.2	Jan
Czech Republic	+ 1.5	Q4	+ 6.4	Jan	– 0.4	Feb	– 2.3	Jan	– 3.5	Q4	24.4	Feb
Hungary	+ 3.7	Q4	+ 4.7	Jan	+ 4.5	Feb	– 3.0	Dec	– 2.7	Jan	13.0	Feb
Poland	+ 1.6	Q3	+ 4.1	Feb	+ 0.5	Feb	–10.3	Jan	– 6.5	Jan	30.7	Feb
Russia	+ 4.3	Q3	+ 6.5	Feb	+14.8	Feb	+48.2	Jan	+30.3	Q3	49.3	Feb
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*												
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 3.4	Jan	– 1.4	Feb	+ 2.7	2002†	8.5	Jan
Saudi Arabia	+ 1.2	2001	na		– 0.7	Nov	+39.2	2001	+ 9.4	2001	21.2	Jan

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Mar 20th 2003
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Mar 19th		Dec 31st 2002	
	Mar 19th	year ago	Mar 19th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.9	na	1,537.0	−0.3	+ 8.3	+ 8.3
Hong Kong	7.80	7.80	12.2	1.34	9,158.6	+3.2	− 1.7	− 1.8
India	47.7	48.7	74.5	5.89	3,121.2	+0.4	− 7.6	− 7.0
Indonesia	9,088	9,892	14,206	12.23	385.5	−0.5	− 9.3	− 10.7
Malaysia	3.80	3.80	5.94	3.10	627.9	−0.2	− 2.8	− 2.8
Philippines	55.0	51.1	86.0	8.69	1,020.5	+2.0	+ 0.2	− 2.8
Singapore	1.77	1.83	2.77	0.75	1,285.0	+4.2	− 4.2	− 6.1
South Korea	1,251	1,321	1,956	4.97	541.8	+1.9	− 13.7	− 18.1
Taiwan	34.7	35.0	54.3	1.40	4,515.1	+4.3	+ 1.4	+ 1.5
Thailand	43.0	43.4	67.2	1.73	361.1	+2.5	+ 1.3	+ 1.6
Argentina	3.02	2.30	4.71	7.90	564.6	+1.8	+ 7.5	+ 20.0
Brazil	3.46	2.34	5.41	26.31	11,006.4	+4.4	− 2.3	− 0.1
Chile	737	658	1,152	2.64	5,057.2	−0.2	+ 0.7	− 1.5
Colombia	2,956	2,282	4,620	7.84	1,617.3	+0.4	+ 0.5	− 2.5
Mexico	10.89	9.07	17.0	8.96	6,017.4	+3.6	− 1.8	− 5.6
Peru	3.49	3.46	5.45	3.83	1,537.4	+2.2	+ 10.4	+ 11.4
Venezuela	1,598	891	2,498	29.22	8,463.2	+3.5	+ 5.6	− 8.4
Egypt	5.71	4.63	8.92	10.03	5,645.0	−2.7	+ 5.1	− 14.7
Israel	4.76	4.62	7.44	6.03	348.3	+7.4	+ 4.8	+ 4.6
South Africa	8.1	11.7	12.7	13.50	8,292.1	+6.7	− 10.6	− 5.8
Turkey	1,718,500	1,351,500	2,686,531	42.00	9,938.2	−6.4	− 4.2	− 7.4
Czech Republic	29.8	35.4	46.6	2.44	477.1	+2.9	+ 3.6	+ 4.4
Hungary	232	276	363	6.49	7,397.3	+2.7	− 5.1	− 8.1
Poland	4.08	4.10	6.37	6.22	13,817.0	−0.0	− 3.8	− 9.5
Russia	31.4	31.2	49.1	18.00	363.2	−4.1	− 0.6	+ 1.2
EMF (MSCI)*	1.00	1.00	1.56	na	276.8	+2.6	na	− 5.2
EMBI+†	1.00	1.00	1.56	na	242.2	−1.2	na	+ 5.8

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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